LOTHIAN
PENSION FUND

2023/24

AUDITED
ANNUAL REPORT
AND ACCOUNTS

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A MESSAGE FROM THE CONVENOR OF THE PENSIONS COMMITTEE

Over the last year, LPF has continued to provide service excellence whilst offering stability to our scheme members and employers, as administering authority of the LGPS Pension Fund.

This has resulted in many significant achievements including, enhancing our on-line service capabilities, delivering benefit statements one month earlier than statutory deadlines, continuing to strengthen our risk and compliance arrangements, reviewing the information governance and risk management frameworks as well as developing the IT provision, including boosting cyber security measures. It was gratifying to see this recognised in receiving the Fund of the Year award (assets over £2.5 billion) at the LAPF awards. We also completed the triennial valuation of the fund as at 31 March 2023 which showed a strong funding position and has enabled a reduction in employers pension contributions whilst maintaining a large degree of prudence.

Reflecting on our strategic direction, the Pensions Committee agreed to pause plans for consideration of a merger in the short term, and instead, focus on continuous improvement and, building on its solid foundations, develop a well-defined internal structure to ensure our long term success. Collaboration remains a key strategic aim for LPF and, as a result, we continued to provide investment services to partner funds and held various related events including an annual infrastructure event and training sessions for our partners.

Over the next 12 months, LPF will focus on developing and strengthening our internal resources further including building greater internal resource to focus on responsible investment, increasing resilience in our operating model, and moving to a new office to facilitate more frequent and effective collaboration between colleagues, partners and stakeholders. In the pages that follow the team will highlight LPF’s progress in more detail, I hope you will find this informative and useful.

I would like to extend my thanks to the Pensions Committee, Audit Sub Committee, Pension Board and all LPF colleagues for their enthusiasm, dedication and hard work over the past year. I have complete confidence LPF will continue to deliver its strategic aims; putting the interests of our scheme members and employers at the heart of our service delivery.

Mandy Watt
Convenor of the Pensions Committee 2023/24
Lothian Pension Fund
25 September 2024

A REVIEW OF 2023/24

The financial year 2023/24 was a successful and award-winning year for LPF. In this report, I'm pleased to share some of our key highlights and achievements during the year and demonstrate how colleagues at LPF strive to deliver the best possible service and outcomes for all our stakeholders.

An award-winning year

In September we were proud to win the LGPS Fund of the Year at the LAPF Investment Awards 2023. Shortly after, we were recognised by the Sustainable Finance Disclosure Rewards for Asset Owners (SFDR4AO) as a leading pension fund for our approach and disclosure on gender. Being recognised by peers and external specialists helps affirm we're on the right path to achieving our vision: "to deliver outstanding pension and investment services for the benefit of members and employers."

LAPF INVESTMENTS AWARDS 2023

Valuation Result

The triennial actuarial valuation of the scheme at 31 March 2023 shows a strong funding position of 157% (107% in 2020). The funding position improved through a combination of strong investment returns achieved during the period, and the impact of the higher interest rates on the valuation date which led to a higher discount rate and reduced the present value of future pension liabilities.

Whilst recognising this is a point in time valuation, the strong position has enabled the Pensions Committee to reduce contribution rates for the majority of employers, whilst still increasing the level of prudence in the valuation basis. A concurrent review of the investment strategy similarly led to modest changes to the strategic asset allocation, whilst maintaining the core tenets of a large majority of return seeking assets, predominately invested in global lower volatility equities. You can read more about this on p46.

Customer Service

We were delighted that we retained the Pension Association Standards Award (PASA) accreditation, maintained our Customer Service Excellence award with increased scores, and reported 90.9% overall customer satisfaction in our annual surveys.

We made further progress towards our vision of delivering outstanding pension and investment services, as confirmed by independent benchmarking and industry accreditations:

- CEM's pension administration analysis shows that LPF delivers a high level of above benchmark service at below benchmark cost
- Meanwhile its investment benchmarking continues to report that LPF's investment costs are significantly lower than its global peer group and CEM Local Government Pension Scheme (LGPS) universe. Over the long-term, LPF has delivered investment returns above its peer group with a lower level of risk and at lower cost.

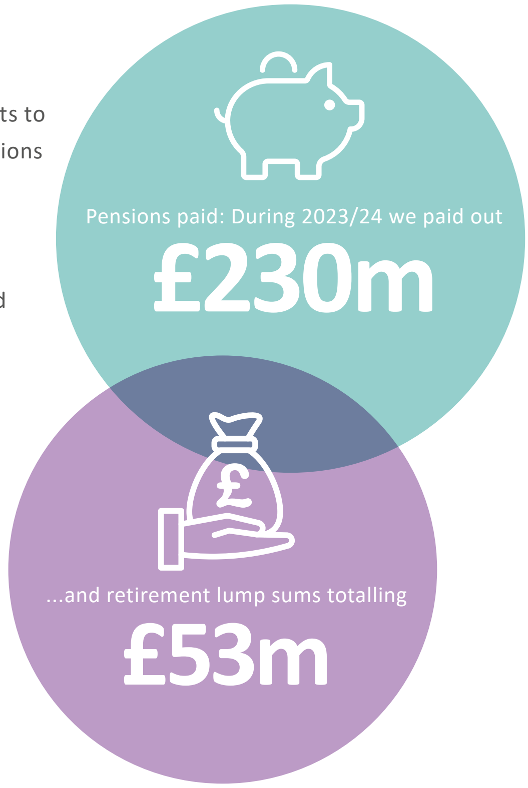
A REVIEW OF 2023/24

'Continuously improve' is one of our core values, and each of our teams have lists of achievements and improvements in 2023/24. In July we delivered 100% of the 56,930 benefit statements to our members and did so three weeks earlier than the previous year. We continue to invest in our risk management processes, recognising the responsibilities we have and the multitude of financial and operational risks we face. Cyber attacks are extremely likely and can cause tremendous damage, so we were pleased to achieve our Cyber Essentials Plus accreditation in March 2023, which gives confidence in our defences. We won't be complacent in this area.

Delivering for our members and their families

As important as strong benchmarking is, our core purpose is paying benefits to members and their dependents. During 2023/4 we paid out £230m in pensions to 36,453 members, a further £53m in retirement lump sums and £9.3m in death grants and we welcomed 6,604 new members. We're delighted that our members reported a high level of customer satisfaction whilst we're continuing to invest in improvements. During the year we introduced biometric facial technology and a payments portal which simplifies and improves the process for overseas pensioners.

The 'McCloud judgement', a court ruling which found that the transitional protections for older workers provided in 2015 were age discriminatory, requires rectifications that came into effect on 1 October 2023.
We've made great progress gathering the required information and communicating with members and employers to enable the revised benefit calculations. Although the financial impact is generally small for individual members, it's nevertheless critical that members receive the pension they're entitled to.



Investment Management

Over the year to 31 March 2024 the fund achieved an overall investment return of +5.5%, and also gave a three year and five-year annualised return of +5.5%. This was achieved in the context of strong listed equity returns for the period (broad market +20.6%) but negative returns from index-linked Gilts (the over 15 year index return was -11.9%). The fund's return over the period is in line with expectations given our asset allocation and strategy.

LPFI continued to provide advisory services to the LGPS's of Fife, Falkirk, Borders, and Northern Ireland, as well as managing an increasing amount of assets for Falkirk and Fife. In total, we're advising and managing around £3bn for these partner funds to both their benefit and to the benefit of LPF through a shared cost model.

A REVIEW OF 2023/24

Our focus and commitment to being a responsible investor continues. In February of this year, we retained the Financial Reporting Council's Stewardship Code accreditation following the publication of our updated Stewardship Report in October 2023. This report sets out how we're delivering against the 12 principles set out by the Financial Reporting Council and includes case studies of our activities. We continue to publish our ESG ezine, ENGAGE which gives detailed information on LPF's approach to ESG and our responsible investment activities. We also updated our Statement of Responsible Investment Principles and continued to support the Asset Owner Diversity Charter.

Governance, Management and Colleagues

During the year we recruited 17 new colleagues across a variety of roles. This included Emmanuel Bocquet joining as Chief Investment Officer and Alan Sievewright as Chief Finance Officer, succeeding Bruce Miller and John Burns respectively. These hires will not only ensure that we remain adequately resourced to deliver what we need today, but will enable us to continue to improve our capabilities and the services we deliver to our members and employers.

In addition, 2023 saw several changes to the composition of the Boards of LPFE and LPFI, following the retirement of Hugh Dunn in September 2023. We were pleased to welcome two new non-executive directors, Dr Deborah Smart and Nareen Turnbull, to the Board of LPFE in early November, with Deborah being appointed as the Chair. In addition, Leslie Robb, was appointed as the Chair of the LPFI Board as an existing non-executive director.

As we seek to be a responsible investor and good steward of capital, we also seek to be a good employer and foster a great team and working environment. It was gratifying to see so many of our colleagues participate in charity events and fund raising during the year, and we continue to support Pride, World Mental Health Week, Mental Health Awareness Day, International Women and Men's Day and Time to Talk. We also continue to work with Future Asset and GAIN to help encourage gender diversity in the asset management sector.

WHAT OUR MEMBERS SAY:

"I've just received my annual deferred member's statement. I wanted to give you the feedback that I find the online facilities and information excellent- very easy to use and understand."

A REVIEW OF 2023/24

Outlook

In 2024/25 we'll build on these achievements, and we look forward to the challenges and opportunities ahead.

An exciting development for our colleagues was the re-location from our office at Atria One to the Haymarket Square development nearby in June. The new location gives colleagues a more modern and larger workplace, and facilitates more collaborative working, as well as enabling the Committee and Board meetings to be held in-house rather than at external venues.

The long-anticipated Pensions Dashboard now has a revised connection deadline of 31 October 2026 with public sector schemes, including the LGPS and LPF, required to join by October 2025. This will give increased visibility of pension benefits to members and may encourage more engagement with their pensions. LPF will be working closely with the system providers on this highly technical project and will be communicating carefully and fully with members closer to the go-live date.

Our 2024/25 Strategy and Business Plan is available on our website and gives further details about our plans. I'd encourage interested parties to read it.

I wish to express my gratitude to our colleagues who work so tirelessly on behalf of members and employers, and to the members of the Pensions Committee, Pension Board, and boards of LPFE and LPFI who collectively oversee the fund and its operating entities, whilst giving me counsel, guidance and encouragement.

David Vallery
Chief Executive Officer
Lothian Pension Fund
25 September 2024

GOVERNANCE AND RISK

LPF administers the Local Government Pension Scheme (LGPS) in Edinburgh and the Lothians. We're a multi-employer scheme with around £10 billion of assets at end March 2024 and were 157% funded at our last valuation as at 31 March 2023. We manage records of 81,500 members and 60 employers and we're the second largest LGPS fund in Scotland.

We also manage the Scottish Homes Pension Fund (SHPF) on behalf of the Scottish Government. This is a closed fund and has 1,550 deferred and pensioner members with £0.16 billion investments.

We manage over 93% of assets in-house investing in equity, bond and other real asset portfolios, including infrastructure, property and timberland investments.

We're unique within the Scottish LGPS sector in having our own Financial Conduct Authority (FCA) authorised asset management firm, established in 2015, which provides investment advisory, deal execution and portfolio management services to the Group and certain external partner LGPS funds.

2023 was a successful award-winning year for LPF. In September 2023, we were proud to win the LGPS Fund of the Year at the LAPF Investment Awards. During the year we also retained the Pensions Administration Standards Association accreditation along with the Customer Service Excellence Award which we've held for over 15 years. We're also pleased to have reported 90.9% overall customer satisfaction in our annual surveys.

The day-to-day running of LPF is carried out by a specialist team who undertake pension administration, accounting and investment functions.

Our comprehensive website provides easy access to all relevant pension information at www.lpf.org.uk. This includes our Annual Report and Accounts, Statement of Investment Principles, Funding Strategy Statement, Pensions Administration Strategy and Pensions Discretions Policy.

COLLEAGUE PROFILE MARIAH SABUR, MEMBER ASSISTANT

Mariah joined us in October 2023. She provides support to the member services team, helping with day-to-day, weekly tasks and general workflow. She helps customers navigate our online service and has recently learned how to provide refunds.

"What I enjoy about working for LPF is how welcoming everyone is. I've have always felt supported which is a big help when learning all these new processes. I'm excited to continue growing within this team environment and know I'm ready for whatever comes next!"

GOVERNANCE AND RISK

Governance Structure

Upholding and maintaining sound corporate governance supports the long-term success of LPF, leading to better outcomes for our members, employers and partners. While we continue to make enhancements to our governance framework, throughout the financial year LPF remained committed to maintaining robust governance.

We’ve set an overview of the Committees and Boards that we have in place below. We also outline our corporate governance approach, together with the Annual Governance Statement and Governance Compliance Statements later in this report.

The Pensions Committee and Pensions Audit Sub-Committee

All LPF and SHPF matters are overseen by the Pensions Committee, supported by the Audit Sub-Committee, and its members act in a ‘quasi trustee’ capacity for the two funds.

The Pensions Committee normally holds four meetings and the Pensions Audit Sub-Committee usually holds three meetings per year. The Pensions Committee is made up of seven members, which includes five (elected) members of the City of Edinburgh Council and two external (non-elected) members who all represent the employers and members in the fund. LPF has a Nominations and Appointments Policy which sets out an appointment process for non-elected Pensions Committee members, based on a formal and openly advertised search. The Pensions Audit Sub-Committee is made up of members of the Pensions Committee.

The table below shows the Committee members and their attendance for the year 2023/24:

COMMITTEE MEMBERS FROM 1 APRIL 2023 - 31 MARCH 2024

NAME	MEMBERSHIP			PENSIONS COMMITTEE	PENSIONS AUDIT-SUB COMMITTEE
Councillor Mandy Watt				4/4	n/a
John Anzani				4/4	4/4
Councillor Phil Doggart*				4/4	4/4
Councillor Neil Ross				4/4	4/4
Councillor Steve Burgess				4/4	n/a
Councillor Vicky Nicolson*				4/4	n/a
Richard Lamont (VisitScotland)				4/4	n/a

KEY TO MEMBERSHIP

- Convener, Pensions Committee
- Convener, Pensions Audit Sub Committee
- Pensions Committee
- Pensions Audit Sub Committee
- Member Representative
- Employer Representative

**Stepped down from the Committee in May 2024, replaced by successors Councillor Iain Whyte and Councillor Adam Nols-McVey.*

GOVERNANCE AND RISK

The Pension Board

The Pension Board was established on 1 April 2015 as set out in the Public Services Pensions Act 2013 and the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015.

The role of the Pension Board is to help ensure that the operation of LPF is in accordance with the applicable law and regulations. The Board attends all Pensions Committee meetings and a representative or representatives also attend the Pensions Audit Sub-Committee meetings.

The membership of the Pension Board consists of equal numbers of representatives appointed from the employer bodies and by trade unions for the membership of LPF. LPF's Nomination and Appointments Policy also sets out a process for the appointment of Pension Board members, whereby employer bodies that represent the fund or trade unions are invited to nominate suitable representatives to be considered for appointment. During the year there have been several changes to the Pension Board membership. In particular, the end of the financial year also saw Jim Anderson step down as Chair, and member of the Pension Board. We extend a particular thanks to Jim for the dedicated role he's played in the Pension Board since its inception in 2015. In addition, the Pension Board welcomed Kevin McGuire (of Unison) as a member representative on 8 April 2024.

Membership and attendance for 2023/24 is shown in the table below. There was one employer representative vacancy as of 31 March 2024.

MEMBER REPRESENTATIVES

		Meeting attendance
Jim Anderson *(Retired 31 March 2024)*	Unison (Chair)	7/7
Thomas Carr-Pollock	GMB	6/7
Brian Robertson	Unite	2/7
Thomas Howorth	Unison	7/7
Tony Beecher	Unite	5/7

EMPLOYER REPRESENTATIVES

Sharon Dalli*	Police Scotland	7/7
Darren May**	Scottish Water	5/7
Nick Chapman *(Retired June 2023)*	Lothian Valuation Joint Board	2/2
Alan Williamson	Edinburgh College	5/7
Jill Brownell *(Joined 8 March 2024)*	VisitScotland	1/1

**Chair, 1 April 2024 - September 2024*

*** Chair designate from September 2024*

GOVERNANCE AND RISK

Committee and Board Training and Development

The Pensions Committee and Pension Board members must attend no less than 21 hours of training each financial year as outlined in LPF's training policy. A copy of the policy can be found on our website at www.lpf.org.uk.

On appointment, all new members of the Pensions Committee and Pension Board also receive induction training. Other training sessions are also built into the Pensions Committee and Pension Board schedule, which cover topics including investment strategy, governance and responsible investment.

Committee and Board representatives also attended external conferences virtually and in person, including the LGPS Seminar Scotland, as well as a variety of Local Authority Pension Fund Forum (LAPFF), Pensions and Lifetime Savings Association (PLSA) and Hymans Robertson webinars.

All the Pension Committee and Pension Board members achieved the required training hours during 2023/24 with the exception of one member. Pensions Committee members have collectively attended 209 hours of training as at 31 March 2024 and members of the Pension Board undertook 549 training hours.

Scheme Advisory Board (SAB)

The Scheme Advisory Board (SAB) for the Local Government Pension Scheme in Scotland was set up following the Public Service Pensions Act 2013. The SAB's main function is to advise Scottish Ministers, when requested, on the desirability of changes to the Scheme. They can also provide advice to scheme managers and pension boards in relation to effective and efficient administration and management of the Scheme in Scotland.

The membership of the SAB comprises seven representatives each from member and employers with a Joint Secretary to support each group and has included Councillor Mandy Watt since August 2022. Brian Robertson, one of the trade union representatives on LPF's Pension Board was nominated as the Chair of the SAB during the year. There's more information on the SAB at www.lgpsab.scot.

GOVERNANCE AND RISK

LPFE and LPFI Boards

We have two Group companies: LPFI Limited (LPFI) and LPFE Limited (LPFE). LPFI and LPFI are both wholly owned by the Council (in its capacity as Administering Authority for LPF) and have a separate Board of Directors.

As an arms-length company, LPFE's primary purpose is to recruit, develop and retain LPF colleagues who support the activities of LPF and LPFI. LPF's colleagues are, therefore, employed by LPFE. LPFI is the Group's regulated investment company, initially established to provide investment advice to our partner funds in Fife and Falkirk and now managing equity and bond mandates for those partners. LPFI is regulated by the FCA. Both the Boards of LPFI and LPFE include two independent Non-Executive Directors, Leslie Robb and Andy Marchant.

2023 also saw several changes to the composition of the Boards of LPFE and LPFI, following the retirement of Hugh Dunn, the City of Edinburgh's Service Director: Finance and Procurement in September 2023. We were pleased to welcome two new Non-Executive Directors: Dr Deborah Smart, the City of Edinburgh Council's Executive Director of Corporate Services, and Nareen Turnbull, Service Director: Human Resources, to the LPFE Board in November 2023. In addition, Leslie Robb, was appointed as the Chair of the LPFI Board as an existing Non-Executive Director. The Council's current Service Director: Finance and Procurement Richard Lloyd-Bithell attends LPFI Board meetings as Council Observer. Membership and attendance for the LPFE and LPFI Boards for 2023/24 is set out below.

All directors of LPFE and LPFI have access to the advice and services of a Company Secretary in relation to the discharge of their duties on the Board, including all matters related to LPF's governance. The Company Secretary is a standing attendee at each of the Board meetings. Members of the Senior Leadership Team of LPF also regularly attend meetings of the LPFE and LPFI Boards.

LPFE and LPFI both use an electronic portal to distribute reports and other information securely, increasing confidentiality and sustainability.

All the operations, costs and liabilities in relation to LPF, including those of LPFE and LPFI, are borne by LPF.

The day-to-day running of LPF is carried out by a specialist investment and pensions team. Our functions include investments, finance and operations, people and communications, Information and Communication Technology (ICT) oversight and governance, legal, risk and compliance.

Our investment responsibilities include carrying out in-house investment management and the monitoring and selection of external investment managers, as well as external facing collaborative initiatives with other like-minded pension funds.

GOVERNANCE AND RISK

MEMBERSHIP OF LPFI AND LPFE BOARD OF DIRECTORS IN 2023/24

LPFE Ltd	Meeting attendance	LPFI Ltd	Meeting attendance
Dr Deborah Smart CEC Executive Director of Corporate Services (Chair) *(Appointed 3 November 2023)*	4/4		
Hugh Dunn CEC, Service Director: Finance and Procurement (Chair) *(Resigned 30 September 2023)*	3/3	**Hugh Dunn** CEC, Service Director: Finance and Procurement (Chair) *(Resigned 30 September 2023)*	2/2
Leslie Robb Non-Executive Director	7/7	**Leslie Robb** (Chair) Non-Executive Director	4/4
Andy Marchant Non-Executive Director	7/7	**Andy Marchant** Non-Executive Director	4/4
Councillor Mandy Watt Convener of the Pensions Committee	7/7		
David Vallery LPF Chief Executive Officer	7/7	**David Vallery** LPF, Chief Executive Officer	4/4
		Bruce Miller LPF, Chief Investment Officer *(Resigned 31 January 2024)*	3/3
Nareen Turnbull CEC Service Director: Human Resources *(Appointed 3 November 2023)*	4/4		
		Kerry Thirkell LPF, Chief Risk Officer	4/4
		Emmanuel Bocquet LPF, Chief Investment Officer *(Appointed 1 February 2024)*	1/1
		Alan Sievewright LPF, Chief Finance Officer *(Appointed 5 February 2024)*	1/1

GOVERNANCE AND RISK

Joint Investment Forum

During the year the quarterly Joint Investment Strategy Panel (JISP) meeting was replaced by the Joint Investment Forum (JIF). The external independent advisers previously on the JISP continue to sit on the JIF, providing strategic advice to Lothian, Falkirk and Fife pension funds. The purpose of the change was to define the roles and responsibilities of all stakeholders, distinguishing more clearly between the strategic advisory services provided to Falkirk and Fife pension funds by LPFI, and the advice provided to all three funds by the external advisers to support decisions in relation to investment strategy and supporting investment decision making governance processes. LPFI advisers continue to work with officers and external independent advisers between regular meetings by monitoring asset allocations and advising on adjustments to them within the investment strategy boundaries permitted by their respective Pensions Committees. The assets of Lothian Pension Fund, Falkirk Council Pension Fund and Fife Council Pension Fund remain separate, including the Scottish Homes Pension Fund being separate to Lothian Pension Fund.

A nominated officer from Lothian Pension Fund, Falkirk Pension Fund and Fife Pension Fund attends each JIF meeting. From 1 April 2023 to 31 March 2024 JIF met quarterly. The table below sets out the JIF's membership.

JOINT INVESTMENT FORUM

Emmanual Bocquet	Chief Investment Officer (LPFI)
Kirstie MacGillivray	External Advisor
Stan Pearson	External Advisor
Elaine Muir	Client Representative, Fife Pension Fund
Amanda Templeman	Client Representative, Falkirk Council Pension Fund

GOVERNANCE AND RISK

The Chief Executive Officer of Lothian Pension Fund leads the management and operation of LPF, supported by an experienced Senior Leadership Team (SLT). As at 31 March 2024 the SLT was made up of:

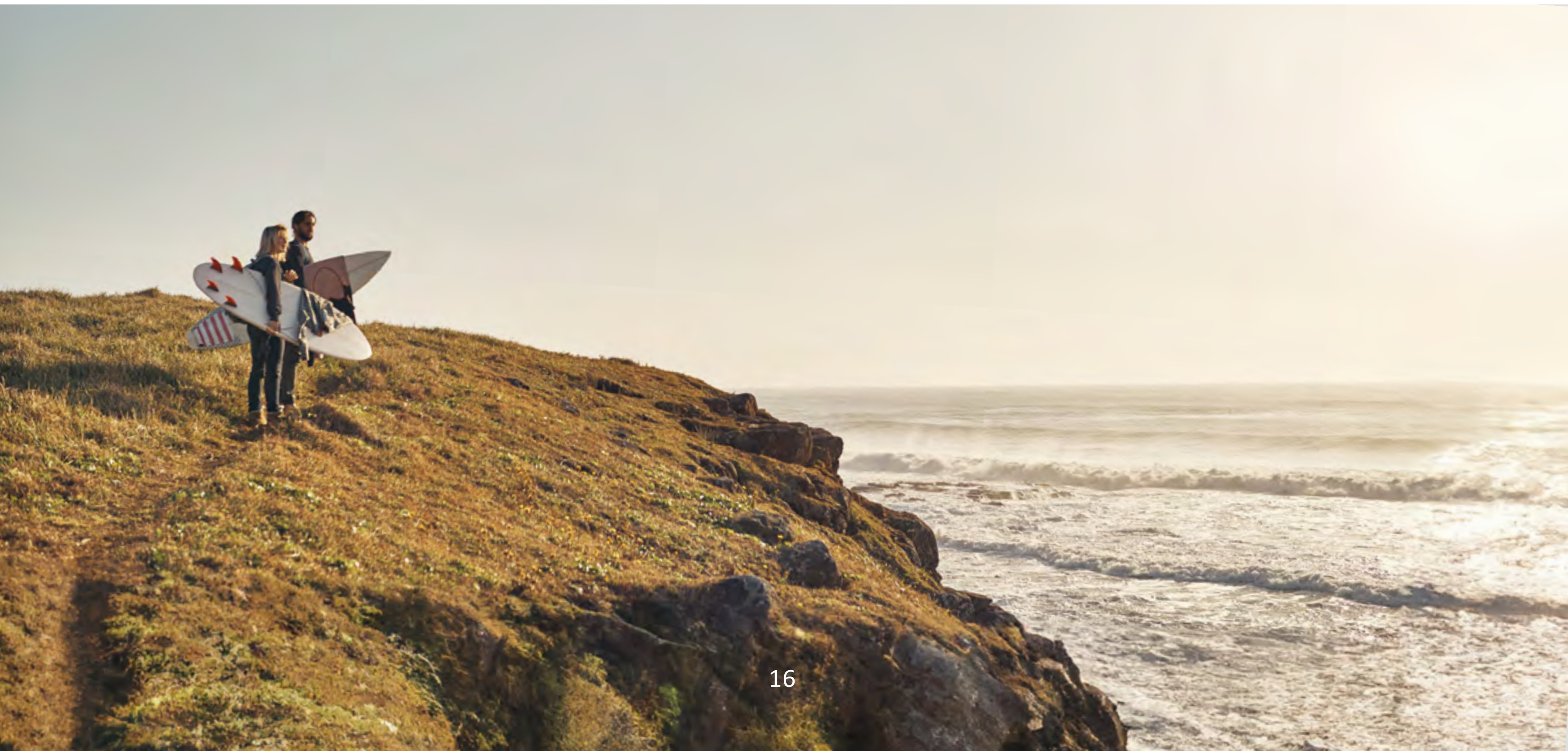
- David Vallery, Chief Executive Officer
- Emmanuel Bocquet, Chief Investment Officer
- Kerry Thirkell, Chief Risk Officer
- Alan Sievewright, Chief Finance Officer
- Helen Honeyman, Chief People Officer
- Karlyn Sokoluk, Chief Operations Officer

To support good governance, the SLT meets frequently and in alignment with the meeting cadence of the Pensions Committee, Pensions Audit Sub-Committee, and LPFE and LPFI Boards, to discuss relevant matters.

Risk Management

LPF has a risk management framework in place across its business functions and group entities, including a toolkit and methodology for identifying, assessing, evaluating, monitoring and reporting risks and controls. This helps to ensure that we're able to operate and demonstrate an appropriate and effective control environment which continues to facilitate and support LPF's forward looking business strategy and objectives.

During 2023 a comprehensive review of the LPF group risk register was undertaken, which has resulted in an improved articulation and evaluation of current risks which the group is exposed to and how these are being managed. Our risk register is formally considered by the Risk Management Group quarterly but it's also updated on an ad hoc basis where required. The Risk Management Group oversees the implementation and ongoing effectiveness of LPF's risk management framework, and comprises the SLT.



GOVERNANCE AND RISK

An overview of monitoring and assurance activities undertaken within LPF is provided to the Pensions Audit Sub-Committee on a quarterly basis, with a summary also provided to the Pensions Committee. In addition, an outline of the key risks that LPF is exposed to is reported to the Audit Sub-Committee each quarter, with a summary of the LPF risk register included in papers for both the Pensions Committee and Audit Sub-Committee.

The most significant risks reported during the period are noted below, together with the key controls and mitigants managing those risks:

Regulatory Risk
The risk of being unable to meet regulatory obligations is managed through a combination of oversight activities, compliance procedures and policies, staff training, regulatory horizon scanning and continuous improvement. The regulatory landscape is under constant review, as it adapts to geopolitical, economic, social and technological influences and there are several stakeholders across the organisation that work collaboratively in identifying, analysing and planning for changes, and subsequently implementing required operational or governance changes within the business.

Information Security & Governance Risk
The risk of inadequate cyber and data security arrangements to protect LPF from information security threats and cyber-attacks, or mis-management or poor maintenance and protection of data is managed through a comprehensive suite of technical security controls, phishing and penetration tests, and complimented by an ongoing programme of training and communications, policies and standards.

Governance
The risk that the group structure and governance arrangements aren't operating compliantly or effectively and with proper authority is managed through secretarial activities that include meeting and training scheduling for board and committee members, governance portal providing access to relevant material, provision of training to relevant stakeholders, appointment of Non-Executive Directors on corporate boards, and documented delegations, and appointment of an Independent Professional Observer to the Pensions Committee.

Third Party Suppliers
The risk that sub-optimal service delivery, management and oversight of third party suppliers leads to disruptions or errors is managed through a supplier management framework and procurement processes.

Resource
The risk that staff resources are insufficient to carry our core tasks is managed through regular review of headcount, structure and resource, with review and approval of organisational plans, succession plans and recruitment.

GOVERNANCE AND RISK

Climate Change

LPF recognises climate change as a material risk to the fund. It has the potential to significantly disrupt financial markets and economic systems, and affect the life expectancy of the fund's members.

Climate change presents risks to the funding strategy:

- **Lower economic growth and investment returns -** tackling climate change will require significant capital investment. This may reduce growth and returns on assets during the transition to a greener economy
- **More climate events -** `extreme' events, such as heatwaves or flooding, are likely to increase in frequency and adversely affect stock markets and asset valuations
- Increased volatility/uncertainty - the pace of transition to a greener economy is highly uncertain. Financial markets and other economic indicators, such as interest rates and inflation, are likely to be more volatile and unpredictable due to the uncertainty
- **Life expectancy -** climate change can affect human health and the longevity of the fund's members, possibly either positively or negatively.

At the 2023 valuation, three climate scenarios were stress tested against the results of the core valuation modelling (referred to as the `Base' scenario). Each scenario assumed a period of disruption linked either to the impact of measures to combat climate change (transition risks) or to the fallout from it (physical risks), with the disruption leading to high volatility in financial markets and economic variables such as inflation over our standard planning horizon of 20 years. Whilst the results differ across scenarios, the differences were not sufficiently material to suggest that the fund's strategy is not resilient to climate change risk. However, there is no guarantee that the traditional relationships between economic variables will hold under extreme climate change. The methodology used in the valuation considers expected returns and volatilities of asset classes in future but cannot directly model the impacts of climate risk at asset class or geographic level. Work is ongoing to develop more realistic and useful climate scenarios ahead of the 2026 valuation.

We use various monitoring tools with the aim of mitigating risk to Fund assets from trends towards net-zero carbon and more broadly from climate change. The internal investment management team uses data services and analytical tools to monitor climate risk at as granular a level as possible. We also identify opportunities to invest in climate solutions which are detailed more fully in the Responsible Investment section. However, we consider our key role as an institutional investor is to engage with the companies in which we invest to encourage companies to adopt business models and strategies that support the aims of the Paris Agreement.

GOVERNANCE AND RISK

Investment Firm Prudential Regime

As LPFI is regulated by the FCA, it's subject to the requirements of the Investment Firm Prudential Regime ('IFPR'), and must ensure that it remains viable throughout the economic cycle, can address any harm from its ongoing activities, and that it can wind-down in an orderly manner to avoid causing harm to clients or the wider market. This means holding a minimum level of financial resources, and regularly assessing how much should be held. To facilitate this, an Internal Capital Adequacy and Risk Assessment (ICARA) process is required to be undertaken and regularly reviewed to ensure internal systems and controls are operating to monitor and reduce potential harm. The ICARA and the risk management framework need to be integrated to ensure all material relevant risks have been identified, articulated and assessed to ensure that risks of harm can be properly considered and accounted for.

During the period the number of mandates managed by LPFI has increased, with a related increase in AuM. This increase in AuM has led to a change in categorisation for LPFI from a SNI (Small and Non-Interconnected) to non-SNI firm. The change in category, together with the increase in AuM and associated activity (i.e. number and size of deals and size of holdings) increased the value of the technical indicators of risks which has contributed to a higher internal assessment of capital required to address potential harms. Consequently, LPFI required a capital injection to ensure on-going compliance with the requirement to be adequately capitalised at all times and 1m shares for 1m ordinary shares of £1 each were allotted and subscribed from Lothian Pension Fund in September 2023. The LPFI board has oversight of the ICARA process.

3 Lines of Defence

A 3 Lines of Defence model helps underpin the integrity of the risk management framework:

- **Line 1**
  Business management responsible for identifying and managing risk and ensuring its activities are compliant with legal, regulatory, and organisational requirements

- **Line 2**
  Risk & Compliance function support the business in managing risks and achieving compliance, monitoring risk and compliance levels in the business and reporting on risk and compliance matters to management and governance forums

- **Line 3**
  Audit provide independent assurance on risk management systems and quality of implementation.


LOTHIAN
PENSION FUND
90.9%
The overall customer satisfaction score we achieved last year.

INVESTMENT

Investment commentary

For the 12 months to 31 March 2024, global equities, as measured by the MSCI ACWI index, returned 20.6% in sterling terms (source: MSCI). The bulk of those gains came in the second half of the year as slowing inflation fuelled hopes for interest rate cuts. Against that backdrop, US technology investments were notable winners, with investors showing particular enthusiasm for companies anticipated to benefit from the growth of artificial intelligence.

The year began with most major central banks tightening monetary policy in the face of inflation data that remained well above official targets. With inflation gradually receding as the year progressed, optimism grew around the potential for rate cuts. However, continuing strong economic data caused investors and policymakers to temper those expectations. The economy remained resilient despite the higher interest rate backdrop, with the UK entering a shallow technical recession but avoiding a more meaningful downturn. China, typically the largest contributor to global growth, experienced more turbulent conditions as its post-lockdown economic resurgence fizzled out, and concerns remained around its domestic real estate crisis and positioning towards Taiwan. Tragic events in the Middle East added a further source of international tension, alongside the ongoing war in Ukraine.

JOHN ANZANI

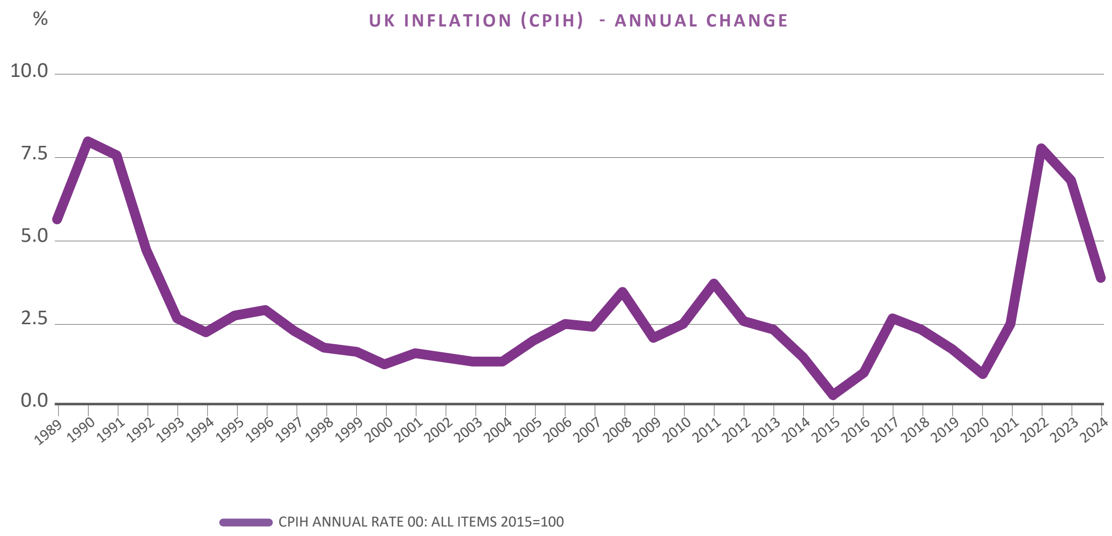
"This year the Audit Sub Committee has continued to assess the effectiveness of LPF's audit, risk and compliance monitoring as well as setting clear expectations that reinforce the importance of quality financial reporting. The Sub-Committee's oversight aims to provide the Pensions Committee with assurance that audits, risk, compliance and key areas such as cyber security are considered with the necessary additional breadth and depth required. The Audit Sub-Committee thus supports the Pensions Committee and the long-term performance of LPF. I have been fortunate to work with an excellent team and I thank them for their skill and commitment, as well as expressing gratitude for the input from Sub-Committee members, the IPO and the Board representatives."

Convenor of the Audit Sub Committee in 2023/24

INVESTMENT

Government bond prices fell over the year amid rising rates, despite inflation falling from its peak. The 10-year gilt yield rose from 3.5% to 3.9% amid significant rate volatility, with yields briefly exceeding the levels (4.5%+) experienced during the UK's mini-budget crisis of 2022. The return on the FTSE Gilts All Stocks index was broadly flat for the year to March 2024, as coupon income offset the impact of higher yields. Corporate bond credit spreads (the difference in yields between bonds of differing quality) narrowed, with UK investment grade credit returning 6.1% over the year (source: Bloomberg).

Meanwhile, unlisted infrastructure valuations were resilient despite the challenging macroeconomic environment, with much of the sector benefiting from inflation-linked returns. However, higher borrowing costs have continued to weigh down commercial real estate capital values.



Source: https://www.ons.gov.uk/economy/inflationandpriceindices/timeseries/l55o/mm23

INVESTMENT

Over the coming year, the outlook for inflation and interest rates will likely remain a dominant theme for investment markets. While the probability of an aggressive rate cutting cycle has diminished, an easier monetary backdrop is expected but not yet assured. Longer term, debate remains around the so-called neutral rate of interest, with some suggesting that this may be higher than the exceptionally low rates experienced over the past decade. The risk of a meaningful recession appears to have diminished, though signs of weakness in consumer demand are now starting to appear. There's also the risk that a higher rate environment and lingering inflation will weigh on corporate earnings growth as well as asset valuations, which appear stretched in some areas. The upcoming elections in the US and UK add further scope for volatility, adding to the ongoing macroeconomic and geopolitical challenges for market participants to navigate.

LESLIE ROBB

"I was delighted to become Chair of LPFI Ltd in October 2023, having already been an Independent Non-Executive Director for several years. In the past year, LPFI has continued to support LPF's collaborative, shared service initiatives and provide strategic advice and portfolio management to our LGPS clients. LPFI is continuing to make good progress. and delivered a strong year, with assets under management growing to nearly £2billion at the end of the financial year. LPFI regularly reviews its risk framework and capital adequacy in line with with FCA regulations and ensures that processes and procedures remain appropriate as assets under management increase.

During the year, there have also been several key appointments to the senior leadership team and, as a result, changes to the composition of the LPFI Board. We were pleased to have welcomed Alan Sievewright as Chief Finance Officer, and as a member of the Board, during the financial year. In addition, following the retirement of Bruce Miller, Emmanuel Bocquet was also appointed to the Board in February 2024, having joined the senior leadership team as Chief Investment Officer in late 2023. I would like to thank all our LPF colleagues who are committed to continue to deliver an excellent service for all our stakeholders."

Chair of LPFI and Independent Non-Executive Director Commentary

LOTHIAN
PENSION FUND

RESPONSIBLE INVESTMENT

'We're a proud endorser of Advance, an initiative focussed on human rights and social issues for workers, communities and society.'

RESPONSIBLE INVESTMENT

Our investment principles

Responsible Investment is a core part of our investment policy and we always operate within the policy, legal and regulatory frameworks that apply to us. We invest in the interests of our beneficiaries and employers and our fiduciary duty requires us to act in a financially prudent manner, taking Environmental, Social and Governance (ESG) factors into consideration in the context of the financial risk that arises from the investment.

As an asset owner in the public sector, striving for high standards of transparency within the constraints of commercial sensitivities, we're understandably subject to considerable scrutiny of our investments. To assist our many stakeholders to better understand the philosophy behind our overall approach to Responsible Investment, we publish our Statement of Responsible Investment Principles (SRIP). In this document, which is reviewed and updated annually, we set out how we undertake investment in a responsible manner, detailed on an asset class by asset class basis, to achieve our stewardship aims.

WHAT OUR MEMBERS SAY:

"My Pension Online is brilliant and very easy to use. And I wanted to say thank you to everyone as I always receive prompt helpful replies to emails and telephone calls."

RESPONSIBLE INVESTMENT

Responsible Investment (RI) and Stewardship Reporting

We produce an annual Stewardship Report which contains a wealth of detail and examples on the implementation of our RI policies. Our most recent Stewardship Report was published in October 2023 covering the period 1 January 2022 to 31 March 2023. It was assessed by the Financial Reporting Council, confirming our continued status as a signatory to the stringent UK Stewardship Code.

Our Stewardship Report explains the core activities that we undertake, both individually as a fund, and collectively with like-minded organisations. These actions include voting on the resolutions of the companies in which we're invested and engaging with a high percentage of them, often through our engagement partners, to drive positive change in corporate behaviour and mitigate investment risk. We employ an engagement partner, currently Federated Hermes EOS, and work with other organisations, such as LAPFF (Local Authority Pension Fund Forum), Climate Action 100+ and the PRI (Principles for Responsible Investment), to promote responsible investing.

As a provider of responsible capital, we believe LPF should be an agent for positive change. Our *ENGAGE* e-zine provides insight into our investment activities; from providing examples of where ESG considerations have impacted our investment decision-making, to celebrating award-winning environmental initiatives.

LOTHIAN
PENSION FUND

RESPONSIBLE INVESTMENT

'LPF is proud to continue working with Future Asset, who strive to provide an opportunity for girls to learn about investment.'

RESPONSIBLE INVESTMENT

Climate change

The Paris Agreement was adopted on 12 December 2015. As of March 2024, 195 members of the United Nations Framework Convention on Climate Change are parties to the Paris Agreement.

The three key aims of the Paris Agreement are:

- Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognising that this would significantly reduce the risks and impacts of climate change
- Increasing the ability to adapt to the adverse impacts of climate change and foster climate resilience and low greenhouse gas emissions development, in a manner that doesn't threaten food production
- Making finance flows consistent with a pathway towards low greenhouse gas emissions and climate resilient development.

Separate to this, but part of the overall worldwide change in attitude towards greenhouse gas emissions, the Financial Stability Board (FSB) of the Bank of England launched the Taskforce on Climate-Related Financial Disclosures (TCFD). TCFD aims to: "develop voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors, lenders, insurers, and other stakeholders." Further information is available at www.fsb-tcfd.org.

As asset owners, we've been engaging with the companies in our portfolios to enhance disclosures on emissions in line with the recommendations of TCFD, as well as working alongside peer organisations to promote the aims of the TCFD and reporting our approach to climate change-related risks and opportunities.

As part of the TCFD resources, investors and asset owners also have guidance on how to report their approach to climate-related risks and opportunities. These recommendations are split into four key areas of reporting.

- **Governance** relates to the organisation's governance and climate-related risks and opportunities
- **Strategy** relates to the actual and potential impacts of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning
- **Risk management** relates to the processes used by the organisation to identify, assess and manage climate-related risks
- **Metrics and Targets** relates to metrics and targets used to assess and manage relevant climate-related risks and opportunities.

We engage with companies to encourage them to improve their disclosure to support us in integrating climate change risk and opportunities into the risk management and governance at LPF. Over the last few years, we've undertaken substantial work on the issue, as detailed in our Stewardship Report.

RESPONSIBLE INVESTMENT

Climate change – governance

The Pensions Committee's approach to climate change risks is encapsulated in the Statement of Responsible Investment Principles.

The Committee and Board considers climate-related issues as part of its annual review of our approach to Stewardship. Climate-related risks and opportunities are an integral part of our overall investment process. The Pensions Committee is responsible for setting investment strategy and delegates implementation of strategy to officers taking advice from the Joint Investment Forum and working with investment managers. Climate-related risk management is reviewed as part of the regular monitoring process for all investment mandates and includes scrutiny of how ESG analysis is integrated into investment decision-making.

JIM ANDERSON

"As Board Chair, (in my last year of being a member of the Board), it has been my privilege to work alongside my Board colleagues, in representing the interests of the scheme members and employers in order to provide 'oversight and assurance' of the work of the Fund, Pensions Committee and Audit Sub Committee. The Board has during this time continued to support the CEC Pension Committee in its considerations of a range items which impact on the running and wellbeing of the fund including; its Funding and Investment Strategies and its Risk Management framework.

In its 'oversight' s role, this year the Board took the unprecedented step of requesting that the Committee review and reconsider its decision in relation to ceasing 'Project Forth' (the possible future merging of the Lothian and Falkirk Pension Schemes) thereby ensuring that clear evidence-based conclusions had been made and that these were able to be seen as being 'fully transparent' to all the stakeholders of the Fund.

I am particularly proud of the all the Board members 'proactive and conscientious' approach to ensuring that all decisions were being made solely in the interest of the fund and all of its members and their diligence in building up their own knowledge and understanding in order to properly exercise their important trust, (NB. over the 12months the Board have undertaken some 300 hours of training). It has been my pleasure to work with all my LPF colleagues over the last 9 years and I leave the Board in safe hands and I wish the Fund, Board, Committees all continued success for the future."

Chair of the Pension Board 2023/24

RESPONSIBLE INVESTMENT

Climate change – strategy and risk management

We recognise the outsized impact that some specific sectors and industrial activities have on climate change by virtue of the magnitude of their greenhouse gas emissions. While many prefer to label companies in carbon intensive industries as 'bad' and those in low-carbon and alternative energy businesses as 'good', history shows that firms need to reinvent themselves to survive. LPF strives to influence and support positive changes by corporate leaders to achieve sustainability for their firms and for society. Consequently, we have a policy of engagement rather than blanket divestment, which allows us to exert influence on companies to improve their business practices, align with the Paris goals, and disclose internal climate-related risk and opportunity management with TCFD compliant reporting.

We encourage our managers to incorporate an analysis of both physical and transition climate risk into their risk assessment of individual companies and their stocks. In addition, we actively engage with companies to align their business strategies with the targets of the Paris Agreement. Where analysis of climate risk (or any other risk) points to poor financial outcomes, we'd expect to divest.

Our approach to engagement relies heavily on our engagement and voting partner, EOS at Federated Hermes (EOS). EOS engages with companies on a range of engagement issues, including climate change.
Our internal team also engages with company management on a regular basis as part of company meetings and investment conferences. Details on our engagement and voting activity is provided in our annual Stewardship Report.

In addition, we're a member of the Institutional Investors Group on Climate Change and of the Climate Action 100+ investor initiative. We actively participate as a co-lead in engagement with one of the 170 focus companies in the initiative's list of systemically important carbon emitters.

Training and development for all colleagues on climate related issues is provided. This includes governance functions, management, investment decisions makers, and pensions administration colleagues. This creates an internal culture that's serious about the risks to capital posed by the low carbon transition, as well as the physical risks of climate change.

The fund's investments can be broadly classified as follows: fundamentally managed equity; quantitatively managed* equity; passively managed government debt; directly owned commercial property and externally managed funds (covering all asset classes). As part of the stock selection process for the fundamentally managed portfolios, any fundamentally material climate-related risks and opportunities (such as carbon pricing and the low carbon transition) are individually assessed and monitored by the managers. The quantitative portfolios are monitored for material risks arising from ESG issues on a regular basis. Both the fundamental and quantitively managed equity funds utilise engagement to improve business practices. The selection and monitoring process for external managers incorporates ESG assessments, which continue to be refined as the industry evolves.

**Quantitatively managed means we screen and sc ore the investible universe of stocks on a variety of factors (both financial and non-financial) and the portfolio is created from the highest scoring stocks.*

RESPONSIBLE INVESTMENT

Our internal managers continue to monitor opportunities in the green energy and future technology space, both in the public and private markets. Much of the current investment in green energy is being undertaken by the incumbent energy providers (the diversification of carbon-extractive companies and carbon burning utilities).

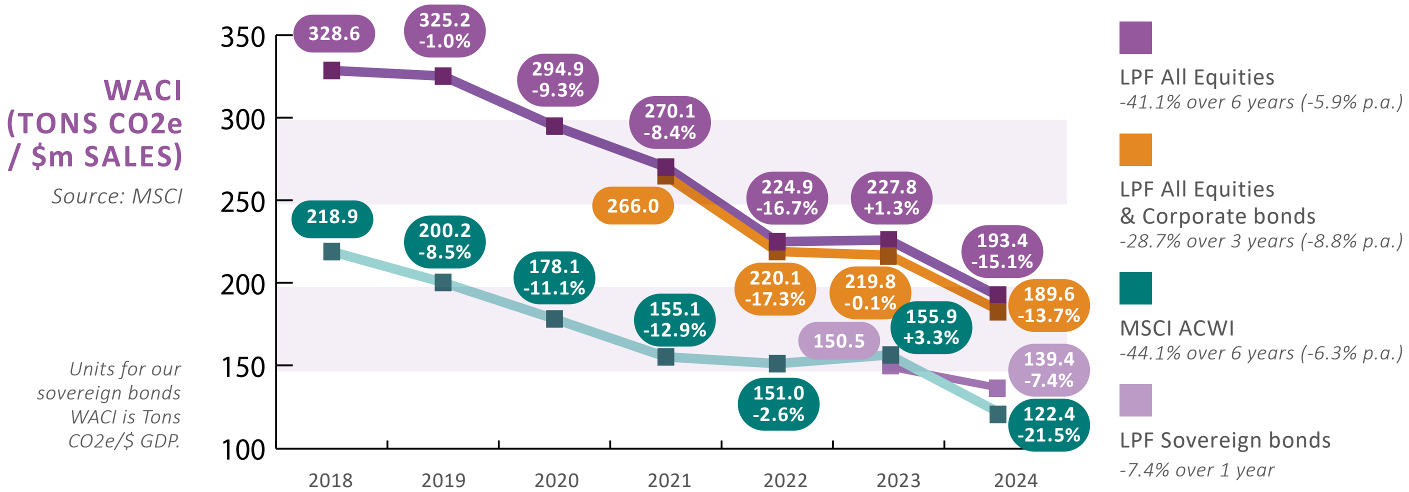
With a research budget specifically allocated to data services targeting ESG and climate-related risks and opportunities, we produce an annual carbon footprint for our listed equities, corporate bonds and sovereign bond investments. This measures the weighted average carbon intensity of the portfolio as a whole. More importantly, it allows us to identify important factors, such as high carbon emissions, to guide our company engagements and forward-looking analysis of the risks to the fund's invested capital from the low carbon transition.

While it's widely acknowledged that climate change is one of the great issues facing society, it's one of several risks that we must mitigate. In that sense, it's no different to any other risk. We believe in a holistic, integrated approach to analysis taking all risks, including climate-related risk, into consideration.

Climate change – monitoring and metrics

The Pensions Committee and Pension Board review ESG (including climate-related) issues at least annually as part of oversight of the stewardship of Fund assets. Officers and the Joint Investment Forum of advisers monitor investment mandates and individual investments at least quarterly.

In-line with TCFD best practice, we've reported a measure of carbon efficiency since 2018: WACI is the Weighted Average Carbon Intensity, with units of tons CO2/$M sales. We use this carbon efficiency measure as it allows us to look on a granular basis at how well a company is managing its emissions, rather than simply what its absolute emissions are. By looking at companies with similar activities, it's possible to use this metric to separate those companies with good practices from those with bad practices. We calculate the portfolio WACI by weighting these intensities according to the portfolio position sizes and adding all the weighted intensities to give a figure for the portfolio and the index. In practice, however, investment managers use a variety of data on individual companies to assess prospects rather than a single carbon metric.



RESPONSIBLE INVESTMENT

Under the Greenhouse Gas (GHG) Protocol:

- **Scope 1** emissions are defined as direct GHG emissions that are controlled or owned by an organisation
- **Scope 2** emissions are indirect GHG emissions that are the result of an organisation's energy use, such as electricity, steam, heat or cooling
- **Scope 3** emissions are all other indirect emissions, such as from the production of purchased materials and fuels, supply-chain transport-related activities, outsourced activities, waste disposal, customers' emissions when using or accessing the organisation's products or services.

Our WACI figures are calculated based on Scope 1 and 2 carbon emissions. Advances in data and methodology, especially in the adoption of a new approach to standardised emissions counting pioneered by the Partnership for Carbon Accounting in Financials (PCAF) have enabled us to present combined data for our equity and corporate bond holdings since 2021. Since 2023, we've been able to also calculate the WACI for our sovereign bond investments. However as the sovereign bond WACI is calculated in a different way, it's not meaningful to aggregate this with the corporate WACI calculated for our equity and corporate bond holdings. We have an ambition to keep expanding the coverage of our emissions reporting across all our assets as data becomes available (supported by external managers and using estimates if necessary) and present more granular emissions data by scope ahead of the deadline for enhanced TCFD reporting for the Scottish LGPS.

While we expect the average carbon intensity of our investments to decline over the longer term as the global economy decarbonises, this trend may be volatile year on year as we incorporate more emissions data and as the out performance of certain sectors can swing the annual snapshot in any one year.

RESPONSIBLE INVESTMENT

Carbon intensity numbers are currently treated as outputs of the investment process rather than targeted inputs into the investment process. This is because these numbers are fundamentally easy to “game”. Our reported portfolio level carbon intensity numbers could easily be brought down by selling the most carbon intensive stocks and replacing those investments with lower emission stocks. While this might be considered “good” optically, companies will continue to emit carbon in the same manner whether LPF sells or retains the shares.

We firmly believe that global decarbonisation will provide benefits to society and the environment, and we therefore support efforts to reduce carbon emissions in the real economy. We do this by engaging (either directly or in collaboration with other investors) with companies and policy makers to encourage businesses to pivot towards a lower carbon future.

Paris Alignment

As data from the Transition Pathway Initiative (TPI) and Carbon Action 100+ are developing and improving, it has become increasingly incorporated into our investment process. The TPI data showing Paris Alignment is an important forward-looking indicator for risk management purposes.

Our involvement in Climate Action 100+ reinforces our belief that engaging with companies to support them in pivoting their businesses towards a lower carbon future is a far more responsible approach than simply divesting or excluding all stocks in high exposure sectors. We’ll continue to engage with our holdings rather than setting specific carbon intensity targets for our overall portfolio.

We’re also engaging with our external managers to better understand their approach to aligning the investments they make on our behalf to a future net zero emissions world, and to encourage improved reporting of emissions data and other sustainability metrics.

Global Real Estate Sustainability Benchmark (GRESB) data in the infrastructure and real estate asset classes is tracked and incorporated into reporting in these areas.

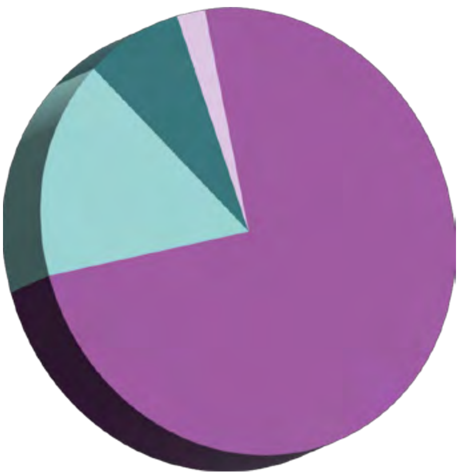
RESPONSIBLE INVESTMENT

Climate solutions

We're also monitoring our investments in climate solutions. These are companies or assets that help the global economy achieve net zero. The clearest examples of investments in climate solutions are in our infrastructure portfolio. While this is a diversified portfolio, it includes investments in renewables and energy transition assets, such as electricity transmission links (within the utility sector), new electric trains (transport sector) and energy from waste projects (environmental services).

Infrastructure investments represented 15% of the value of Lothian Pension Fund assets at 31 March 2024, comprising one of the largest allocations among UK LGPS funds. Of the total infrastructure portfolio, the majority is invested in the UK, and around a quarter of the portfolio is invested in renewables (wind, solar and hydro) and environmental services.

GEOGRAPHY



SECTOR

In addition, Lothian Pension Fund had over £100m invested in forestry assets at 31 March 2024. While this is mainly commercial forestry, it all has sustainable forestry certification.

FUNDING STRATEGY STATEMENT

The Funding Strategy Statement was fully revised at the 2023 Actuarial Valuation and reflects CIPFA guidance: “Preparing and maintaining a funding strategy statement in the Local Government Pension Scheme 2016”. Amendments made included changes to reflect changes in legislation which impact employers leaving the fund, as well as amendments to reflect changes made in the fund’s strategy for setting contribution rates.

As required under Scheme Regulations, the fund consulted with employers as part of the review process.

The fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy), or asset returns (derived from the investment strategy). A formal review of the fund’s investment strategies is undertaken at least every three years to ensure appropriate alignment with liabilities. Further information on the investment strategies can be found in LPF's Statement of Investment Principles also available at www.lpf.org.uk.

The next triennial valuation for both funds will be undertaken as at 31 March 2026, and full reviews of both the Funding Strategy Statement and the investment strategies will be carried out as part of this process.

WHAT OUR MEMBERS SAY:

"I like the easy seamless flow of navigating the information on my pension – the terminology and explanations. Very impressive and positive all round."

6,604

The number of new members we welcomed last year.

FINANCIAL PERFORMANCE

Administration expenses

A summary of the fund's administrative expenditure for 2023/24, against the budget approved by the Pensions Committee, is shown in the table below.

The budget is split into controllable costs and uncontrollable investment management expenses. It excludes all benefit payments and transfers of pensions from the Fund. Similarly, income doesn't include contributions receivable and pension transfers to the Fund. The total net controllable costs outturn was £14,255k against the budget of £16,460k representing an underspend of £2,205k (13.4%) for the Fund.

The most significant budget variances serving to generate this underspend were:

- **Investment managers' fees – Invoiced – £1,381k underspend.** Invoicing for externally managed mandates are based on the market value of assets managed. The fund brought the externally managed Harris mandate into in-house management during the year, contributing to a majority of the underspend

- **Other third-party payments– £709k underspend.** The Funds budget included provisions for external adviser cost in relation to Project Forth. As this project is currently on hold the budgeted spend for the project was not incurred

- **Supplies and Services – £287k underspend.** Various contributing factors to underspend including lower than budgeted postage and systems costs in the Operations/Governance team

- **Income – £410k under-recovery.** Income in relation to collaborative partners is based on a cost sharing mechanism. The lower than forecast income was due to underspends against budget and delays in the role out of additional collaborative investments. This coupled with the pause of Project Forth and the expected shared costs of this project has resulted in below budget income.

As part of the budgeting process, estimates are made on the expected uncontrollable investment management expenses for the year. These estimates are based on previous years costs and expected movements in assets under management. The spend for the 2023/24 financial year is £5,976k lower than estimated. There was a number of contributing factors to this including lower than estimated investment property management costs and some of our private market investments reaching the end of their investment cycle (meaning management fees are no longer chargeable).

FINANCIAL PERFORMANCE

	Approved budget	Actual outturn	Variance
	£000	£000	£000
Employees	8,344	8,113	(231)
Transport and premises	577	617	40
Supplies and services	2,768	2,481	(287)
Investment managers fees - invoiced	3,850	2,469	(1,381)
Other third-party payments	2,583	1,874	(709)
Capital funding - depreciation	227	207	(20)
Direct Expenditure	**18,349**	**15,761**	**(2,588)**
Support costs	732	705	(27)
Income	(2,621)	(2,211)	410
Total net controllable cost to LPF	**16,460**	**14,255**	**(2,205)**
Uncontrollable Costs			
Investment managers fees - Uninvoiced Base Fees	24,025	18,208	5,817
Investment managers fees - Uninvoiced Performance Related	9,000	8,841	159
Total net cost to LPF	**49,485**	**41,304**	**8,181**

Reconciliation to total costs	Actual outturn
	£000
Actual outturn on budgeted items above	41,304
IAS19 LPFE retirement benefits	4,866
LPFE deferred tax on retirement benefits	(214)
Corporation tax	(38)
Total cost to LPF (inclusive of full cost investment management fees)	**45,918**
Per Fund Accounts	
Lothian Pension Fund Group	45,856
Scottish Homes Pension Fund	62
Total	**45,918**

FINANCIAL PERFORMANCE

LOTHIAN PENSION FUND

Cashflow

Cashflow to and from a pension fund is very dependent on the profile of its membership. Specifically, a maturing membership, such as ours, where the proportion of active to deferred and pensioner members is reducing, would be expected to see a reduction in contributions received, together with additional outlays on payments to pensioners. This will be compounded by the reduction, at a fund level, of contributions expected from employers.

The tables below show the projected cash flow, as reported to Pensions Committee on 20 March 2024, against the actual movement for the year. It's important to distinguish between the basis of preparation for these, with the projected figures prepared on a cash basis, i.e. from when cash is received by the fund, compared to the accruals basis of the Financial Statements to reflect accounting standards.

	2023/24 Projected	2023/24 Accruals basis	2023/24 Cash Basis
Income	**£000**	**£000**	**£000**
Contributions from employers	218,000	218,550	217,949
Contributions from employees	59,000	61,769	61,421
Transfers from other schemes	13,000	14,219	14,219
	290,000	**294,538**	**293,589**
Expenditure			
Pension payments	(228,000)	(229,799)	(229,799)
Lump sum retirement payments	(64,000)	(67,092)	(66,081)
Refunds to members leaving service	(1,000)	(1,007)	(1,007)
Transfers to other schemes	(11,500)	(13,294)	(13,294)
Administrative expenses	(3,500)	(3,865)	(3,865)
	(308,000)	**(315,057)**	**(314,046)**
Net additions/(deductions) from dealings with members	**(18,000)**	**(20,519)**	**(20,457)**

LOTHIAN PENSION FUND

FINANCIAL PERFORMANCE

Cashflow (cont.)

Lothian Pension Fund	Actual	Cash flow forecast									
	2023 /2024 £m	2024 /2025 £m	2025 /2026 £m	2026 /2027 £m	2027 /2028 £m	2028 /2029 £m	2029 /2030 £m	2030 /2031 £m	2031 /2032 £m	2032 /2033 £m	2033 /2034 £
Pensions income	294.5	248.2	259.7	271.7	284.3	297.5	311.3	325.7	340.9	356.8	373.4
Pensions expenditure	(315.0)	(389.4)	(344.1)	(357.5)	(371.5)	(386.2)	(401.7)	(417.9)	(434.9)	(452.8)	(471.6)
Net pensions cash flow	**(20.5)**	**(141.2)**	**(84.4)**	**(85.8)**	**(87.2)**	**(88.7)**	**(90.4)**	**(92.2)**	**(94.0)**	**(96.0)**	**(98.2)**
Net investment income	**316.8**	**329.5**	**342.7**	**356.4**	**370.7**	**385.5**	**400.9**	**416.9**	**433.6**	**450.9**	**468.9**

The above figures are the estimated annual cash flow on pensions activity and investment income for the next ten years. The forecast is based on the 2023/24 actual cash flows (included for comparison) adjusted for revised contribution rates as a result of the 2023 Actuarial Valuation and known changes in outflows.

Throughout the forecast period it's expected that investment income will provide multiple cover for negative net pensions cash flow, with no asset sales being required to fund ongoing pensioner payments.

SCOTTISH HOMES PENSION FUND

	2023/24 Projected	2023/24 Accruals basis	2023/24 Cash Basis
Income	**£000**	**£000**	**£000**
Administration charge	90	90	90
Expenditure			
Pension payments	(6,500)	(6,502)	(6,502)
Lump sum retirement payments	(400)	(349)	(349)
Transfers to other schemes	(100)	-	-
Administrative expenses	(90)	(64)	(64)
	(7,090)	**(6,915)**	**(6,915)**
Net additions/(deductions) from dealings with members	**(7,000)**	**(6,825)**	**(6,825)**

Scottish Homes Pension Fund is a mature fund with no active members. As a result, pension outlays are met from investment income, supplemented by asset sales. Net pension outlays were £6.8 million, which is broadly in line with the prior year.

Membership statistics and funding statements from the Actuary are provided for both funds in the Fund Accounts sections.

FINANCIAL PERFORMANCE

Cashflow (cont.)

Scottish Homes Pension Fund	Actual	Cash flow forecast									
	2023 /2024 £m	2024 /2025 £m	2025 /2026 £m	2026 /2027 £m	2027 /2028 £m	2028 /2029 £m	2029 /2030 £m	2030 /2031 £m	2031 /2032 £m	2032 /2033 £m	2033 /2034 £m
Pensions income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pensions expenditure	(6.8)	(7.0)	(6.9)	(6.8)	(6.8)	(6.7)	(6.6)	(6.6)	(6.5)	(6.4)	(6.3)
Net pensions cash flow	**(6.8)**	**(7.0)**	**(6.9)**	**(6.8)**	**(6.8)**	**(6.7)**	**(6.6)**	**(6.6)**	**(6.5)**	**(6.4)**	**(6.3)**
Net investment income	**2.0**	**2.0**	**2.0**	**1.9**	**1.8**	**1.7**	**1.7**	**1.7**	**1.6**	**1.6**	**1.6**

The estimated annual cash flows for Scottish Homes Pension Fund is based on actuarial analysis of the fund's membership profile. Although investment income is below the annual pension outgoings, the all gilt investment strategy incorporates these cash flow requirements, with redemption dates of gilts tying into the fund's liquidity needs.

FINANCIAL PERFORMANCE

Investment management cost transparency

Local authorities are required to account for pension funds in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements.

The Chartered Institute of Public Finance and Accountancy (CIPFA) published this guidance in July 2014, which promoted greater transparency of investment management fees. In June 2016, CIPFA revised its guidance including the following: “Investment costs incurred by a separate legal entity, or in respect of investment decisions over which the pension fund has no control, should not be included in the Fund Account.”

COLLEAGUE PROFILE ALISON ROBB, COMMUNICATIONS BUSINESS PARTNER

Alison joined us in February 2022 as a communications business partner. Alison supports communications across the business for colleagues, members and employers of LPF, the media and stakeholders.

“Pensions, whatever people may think, are never dull, but they can be complex. Part of my role is to simplify what we say and how we say it. I really enjoy working across all areas of the organisation and there’s always new and interesting projects to get involved with. Support and knowledge comes from everyone in LPF and it’s part of what makes it a great place to work.”

FINANCIAL PERFORMANCE

The revised guidance changed the disclosure of fees for 'fund of funds' investment arrangements. A ‘fund of funds’ is an investment holding a portfolio of other investment funds rather than investing directly in funds. Typically, fees are payable to the ‘fund of funds’ manager as well as to the managers of the underlying funds. Generally, under the revised guidance from CIPFA, the second and third layer of fees wouldn’t be disclosed with just the fees from the ‘fund of funds’ manager stated.

In the preparation of the fund’s Annual Report the fund made efforts to be completely transparent on the totality of costs incurred for managing its investment assets. The fund’s disclosures included all layers of fees. The fund agreed with its auditors that to facilitate full cost transparency, it would continue to disclose these costs above the required CIPFA standard, but that these costs would be shown separately to aid the reconciliation and comparability of the investment management expenses of the fund to other LGPS.

COLLEAGUE PROFILE JAMIE SMITH, LEGAL COUNSEL

Jamie joined us in May 2022 as a trainee solicitor on secondment from the City of Edinburgh Council and has since fully qualified into the role of legal counsel. Jamie supports by providing specialist advice to the in-house investment team and generalist advice to departments within the wider organisation.

“Aside from all the approachable and supportive people that create such a positive working environment at LPF, my favourite part about the job is being able to work on investment transactions involving real assets. I enjoy that my work has a tangible outcome and find it rewarding that so many of our assets, such as wind farms and transport links, can positively contribute towards society as well as providing benefits to our members.”

FINANCIAL PERFORMANCE

The effect of this additional disclosure is shown below:

	Lothian Pension Fund		Scottish Homes Pension Fund	
	2022/23	2023/24	2022/23	2023/24
	£000	£000	£000	£000
Investment management expenses in compliance with CIPFA guidance	37,469	36,965	88	88
Investment management expenses per financial statements	38,075	37,569	88	88
Disclosure of management expenses in excess of CIPFA guidance	606	604	-	-

Utilising its internal investment management expertise, the investment strategy of Lothian Pension Fund has evolved to move away from more complex and expensive investment vehicle structures, such as 'fund of funds', to increased direct investment, e.g. in infrastructure. This significantly reduces the layers of management fees incurred.

The fund is now at the realisation stage of its 'fund of fund' investments, with its holdings in listed private equity and infrastructure funds being reduced and those receipts funding additional direct investments. Crucially, the disclosure of the full costs of investment management remains fundamental to effective comparison between LGPS funds, particularly given the common use of 'fund of fund' investment vehicles.

Investment cost benchmarking

Investment strategy focuses on risk-adjusted returns net of costs. The fund has participated in investment cost benchmarking provided by CEM, an independent benchmarking expert for global pension funds. CEM’s 2022/2023 database includes 293 funds with £8.3tn of assets in aggregate. To provide a relevant comparison, CEM calculates a benchmark based on fund size and asset mix, which are key drivers of investment costs.

The latest analysis available for the year to 31 March 2023, showed that LPF's investment costs of 0.26% of average assets were significantly lower than CEM's benchmark cost of 0.49%, an equivalent annual saving of approximately £22m. This saving largely reflects the fact that the fund manages a relatively high percentage of assets internally compared with other similar pension funds and that it has low exposure to 'fund of fund' investment vehicles.

PERFORMANCE AND ADMINISTRATION

Key performance indicators 2023/24

Our strong commitment to customer service drives continuous service development, ensuring the best possible service, whilst recognising potential demands of the future. We set challenging performance targets and measure these through both key indicators which are reported to our Pensions Committee and Pension Board, and internal indicators, which are reported to internal management. This year we've focussed on improving the services we provide digitally to enable members quick and easy access to their personal information.

The table shows our performance against these targets.

2022/2023		Target	2023/2024
Retained	Maintain Customer Service Excellence Standard (CSE) (Annual assessment)	Retain	Retained
Unqualified opinion	Audit of Annual Report and Accounts	Unqualified opinion	
100%	Proportion of members receiving a benefit statement by August	100%	100%
92.7%	Overall satisfaction of employers, active members and pensioners measured by surveys	90%	90.9%
99.91%	Percentage by value of pension contributions received within 19 days of end of month to which they relate	99%	99.97%
Met	Rolling 10-year fund return is >+5% pa unless the benchmark is <+5%pa, in which case, the relative return is positive	Meet benchmark monthly	Met
Met	Monthly pension payroll paid on time	Met	Met
2.58%	Level of sickness absence	4.0%	1.57%
100%	All colleagues complete at least two days training per year	100%	100%
79%	Colleague engagement index	Greater than 70%	74%

LOTHIAN
PENSION FUND

85.9%

The number of deferred members who completed the online retirement process.

2023 ACTUARIAL VALUATIONS

The most recent triennial assessment of the funding position was undertaken by LPF's Actuary as at 31 March 2023. The valuation set employer contribution rates for the three-year period from 1 April 2024. The Funding Strategy Statement was reviewed and amended following consultation with employers.

For Lothian Pension Fund, the funding level increased from 106% at 31 March 2020 to 157% at this valuation. The surplus of £408 million at 31 March 2020 increased to £3,525 million at 31 March 2023.

The positive valuation results allowed the fund to build in additional prudence when setting employer contributions, including a minor change to investment strategy (reducing exposure to equities), building in allowance for a fall in investment markets and increasing the target likelihood of success of achieving full funding over the time horizon relevant to that employer. Even after building in these additional prudent measures, the fund was able to reduce or freeze employer contribution rates for the three-year period from 1 April 2024.

Lothian Pension Fund requires employers to provide written confirmation that minimum contribution rates set by the Actuary are affordable as it's not in the best interests of the individual employers or the fund for employers to continue to accrue unaffordable pension liabilities.

The funding level for Scottish Homes Pension Fund at 31 March 2023 was 127%, increased from 118% from the 2020 actuarial valuation. The Scottish Homes Pension Fund is a closed fund administered by Lothian Pension Fund on behalf of the Scottish Government and is fully invested in index-linked gilts to reduce volatility in funding levels.

The next triennial valuation for both funds will be undertaken as at 31 March 2026.

PERFORMANCE AND ADMINISTRATION

Value for money

Pension administration benchmarking

Value for money is the term used to assess whether an organisation has obtained the maximum benefit from the services it acquires or provides, within the resources available to it.

It has three components to take account of: economy, efficiency and effectiveness.

For many years, LPF has participated in pensions administration benchmarking exercises. The purpose of this is to help identify the areas where we can make improvements to deliver better value for money. The benchmarking facilitates:

- Comparison between costs and performance
- The provision of evidence to support decisions on budget relating to the sustainability and capability to enhance customer satisfaction
- Sharing of information and ideas with peers
- A review of performance trends over time.

The Pensions Administration Standards Association (PASA)

Holding PASA Accreditation is the gold standard for quality in pensions administration. We're proud to hold accreditation, as we believe that it's important that we can demonstrate that we're carrying out our role as a LGPS efficiently and effectively. The PASA standards are an excellent external validation of these capabilities.

PERFORMANCE AND ADMINISTRATION

The outputs and analyses have served to supplement internal performance management information.

We participate in the pension administration survey carried out by CEM which provides further insight into both pension administration costs and quality of service.

In addition to other local authority pension funds, the CEM peer group also include UK private sector schemes. Participating funds from both private and public sectors are of a significantly larger size than LPF. CEM's benchmarking results categorised our pension administration service as "low cost; high service standard".

Results show that cost per member of £30.49 is lower than the adjusted average of £35.42, and a service score of 68 out of 100, which is higher than the peer median of 63. Reasons for the higher score compared to the peer group include:

- Paying retirement lump sums more quickly (for both active and deferred members)
- A higher proportion of both active and deferred members use our secure online portal, (59.6% and 54.8% respectively, compared to 49.3% (active) and 31.1% (deferred for the peer group average)
- Carrying out targeted campaigns including encouragement to update beneficiary information.

WHAT OUR MEMBERS SAY:

"Great customer service, and it was a pleasure to be treated as a person, not a stat."

PERFORMANCE AND ADMINISTRATION

Customer and complaint feedback

Listening to feedback is key to our services and LPF carry out surveys to monitor individual and overall satisfaction. Our overall satisfaction continues to improve and in 2024 remains above the 90% target at 90.9%.

We also monitor complaints and ensure we respond to and resolve all complaints where possible, within 20 working days.

We investigate and learn from both formal and informal complaints to ensure we're continuously improving our services. Complaints are split into those about the service we provide and those about how Scheme Regulations are applied.

We carried out 28,028 processes in 2023/24 and there were 50 complaints made, less than 0.01%. Complaints covered a broad range of issues including dissatisfaction with customer service, incorrect benefit estimates and unable to take a cash transfer sum.

Internal dispute resolution procedure (IDRP)

Pensions law requires that the Local Government Pension Scheme must have a formal procedure in place for resolving disputes arising from the running of the scheme. The IDRP is a two-stage process. An external independent appointed person deals with disputes at the first stage and the second stage is dealt with by the Scottish Ministers.

In 2023/24, there were 11 Stage 1 disputes for investigation of which four were resolved internally. If a member remains dissatisfied with the Stage 1 decision, they have six months to take their appeal to Stage 2. In 2023/24 there were two Stage 2 disputes. These disputes are included in the statistics below.

Reason for dispute	Stage 1 outcome	Stage 2 outcome	On-going
Pension entitlements less than expected	6 dismissed	0	3
Not able to transfer in pension rights after retirement	1 dismissed	0	0

Further information about the IDRP and complaints procedure is available on our website at Complaints and Appeals / LothianPensionFund.

PERFORMANCE AND ADMINISTRATION

Our data

We issued 100% of benefit statements by 31 July 2023, one month ahead of the statutory deadline of 31 August.

We measure our pension record keeping standards against The Pensions Regulator's best practice guidance. Poor record-keeping can lead to significant additional costs in areas such as administration, error correction, claims from members, as well as fines from The Pensions Regulator.

All our employers submit monthly contribution and pensionable pay data through our employer data portal, and we audit submissions to ensure the continuation of data accuracy.

We utilise a business intelligence tool, procured from our administration software supplier, to analyse our data and determine the scores for our common and conditional data. The Pensions Regulator specifies that we should hold both common data such as name, date of birth and national insurance number so that a member can be uniquely identified as well as conditional or scheme specific data which is information required to operate each individual scheme such as member status. Both types of data are equally important. The scores are based on the percentage of clean member records; those considered to be without a single data failure.

The following scores were submitted to The Pensions Regulator for the 2023 annual scheme return. Lothian Pension Fund and Scottish Homes Pension Fund scored 98.5% and 97.7% respectively for common data (2022 scores were 98.6% and 97.8% respectively) and 99.5% and 100% for conditional data (2022 scores were 99.5% and 100% respectively). The quality of data continues to be considered to be of a high standard.

Customer Service Excellence (CSE)

We're proud to have held the Customer Service Excellence (CSE) Award (previously known as Charter Mark) since 2008.

The CSE Awards were established to provide a practical tool for service providers to drive customer-focussed change within their organisation. It has helped us to become even more efficient and effective and provide an excellent service to our members and employers.

Yearly formal assessments are carried out by a licenced certification body and we're delighted to have received successful inspections for the last 17 years.

PERFORMANCE AND ADMINISTRATION

Rectification of age discrimination - McCloud and Sargeant judgements

When public service pension schemes were reformed following the Public Service Pensions Act 2013, protections for older scheme members were introduced. In December 2018, the Court of Appeal ruled that the transitional protections included in the Judges' ("McCloud") and Firefighters' ("Sargeant") pension schemes constituted unlawful age discrimination. Following this, in July 2019, a Written Ministerial Statement confirmed that the UK Government believed that the ruling applied to all the main public service pension schemes and that the discrimination would be addressed in all the relevant schemes, including Local Government Pension Scheme (LGPS) in Scotland.

On 1 October 2023, amendment regulations came into force to apply the McCloud remedy. As anticipated, a comparison is to be made between the benefits payable under the current rules, with the entitlements which would have been paid if the Scheme had not changed in 2015, and with any higher sum being paid to the member (the 'guarantee amount'). This protection will apply automatically and members who meet the qualifying criteria won't need to take any action. Initial findings support the original assumption that only a small number of members will be affected.

The project is ongoing and the data team have so far delivered major key milestones including:

- Analysis of service held on member records to identify possible gaps
- Data collection and validation of changes from scheme employers
- Bulk calculations including creation of McCloud 'tranche' and rectification screen
- Checking of provisional guarantee amounts.

As the changes effective from 1 October 2023 constituted a material change to the scheme, under disclosure we were required to give information about the changes to all people whose rights or prospective rights under the scheme may be affected. As well as updating our website with relevant information, we also wrote to members who are in scope and those whose previous public sector membership could make them eligible for the McCloud check. In total, 38,443 communications (letter or email) were sent by 31 December 2023.

PERFORMANCE AND ADMINISTRATION

Member service

Our in-house Member Services team provides a dedicated administration service for the pension fund members. We monitor the time taken to complete key tasks, which include the processing of retirement and dependents' benefits, providing scheme information for new members, transfers and early leaver calculations.

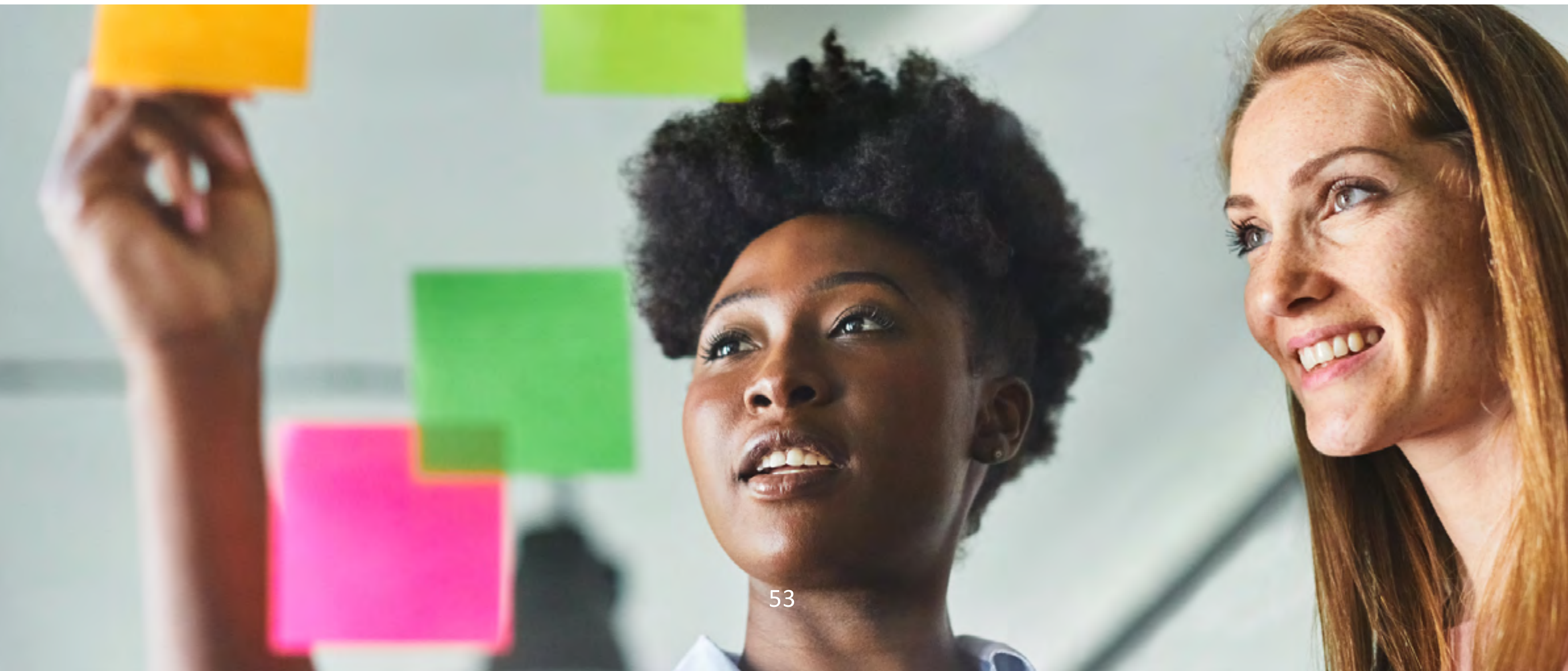
The team has faced several challenges throughout the year. A number of staff changes left some knowledge gaps in certain processes and, while it's important to have sufficient colleagues trained on these, it had to be done in a controlled, measured way with assurance activities such as observations and quality checks, which has impacted on our performance in certain key tasks.

To support our approach to training and development, we've now introduced a Member Services Coach role with the aim of bringing greater consistency to training and allowing a dedicated point of contact whenever anyone requires further coaching or assistance. Two members of staff were recruited for the role and they now meet regularly with Senior Administrators and Operations Managers to discuss any gaps in knowledge and arrange training where required. There has been a large volume of training carried out to continue to develop and upskill our colleagues.

The coaches have also developed a new skills matrix, which will allow training needs to be identified and performance to be monitored consistently. This is due to be fully operational very soon.

As well as staffing challenges, the team has also had to contend with changes to actuarial factors used in a number of calculations, particularly transfers out which were suspended for over three months due to an unexpected change in the SCAPE discount rate which underpins the factors used in these calculations. This lead to a significant backlog of these cases once the new factors were received.

Despite these challenges, the team completed 89.4% of key tasks within target. Additionally, the team has continued to work on the backlog of non-key work, particularly aggregations and retirement recalculations, completing nearly 2,000 of these cases during the year. They've also provided first point of contact service to our members, handling over 36,000 incoming telephone calls and emails from our members.



PERFORMANCE AND ADMINISTRATION

The table below shows performance of key procedures in 2023/24.

2022/23		Target	2023/24
97.9%	Proportion of pensions administration work completed within standards – individual performance within this indicator is shown below	Greater than 92%	89.4%
99.7%	Provide a maximum of one guaranteed Cash Equivalent Transfer Value (CETV) within 10 working days of receiving a request	91%	64.6%
98.3%	Acknowledgement of the notification of the death of a member to next of kin within five working days	96%	97.5%
97.4%	Pay lump sum retirement grant within seven working days of receiving all the information we need from the member	96%	83.7%
100%	Notify early leavers entitled to deferred benefits of their rights and options within 10 days of being informed of end of pensionable service	91%	86.7%
97.4%	Respond in writing within 20 working days to formal complaints that have escalated from frontline resolution, or recorded directly as an investigation	96%	100%
75.8%	Notification of dependant benefits within five working days of receiving all necessary paperwork	96%	24.9%
96.5%	Payment of CETV within 20 working days of receiving all completed transfer-out forms	96%	83.5%
97.2%	Provide new members with scheme information within 20 working days of receiving notification from the employer	96%	98.88%
98.1%	Provide a transfer-in quote within 10 working days of receiving the CETV from member's previous pension provider	96%	52.9%
96.7%	Pay a refund of contributions within seven working days of receiving the completed declaration and bank detail form	91%	84%
98.5%	Notify members holding more than three months, but less than two years' service, of their options at leaving. As there's a one month and a day lying period, the target is within 10 days of the end of the lying period or after the employer providing full leaving information if later	85%	86.7%
100%	Produce estimate requested by employer of retirement benefits within 10 working days	91%	82.7%
99.4%	Pay any lump sum death grant within seven working days of re-ceipt of the appropriate documentation	96%	78.8%

PERFORMANCE AND ADMINISTRATION

Online services

We took part in a joint project with our software provider, Heywood Pension Technologies, to encourage members to register for My Pension Online and visit our website. We contacted different groups of members and used encrypted emails and knowledge-based authentications to validate email addresses and help them get online. It was a very successful project with 20% of the members interacting with us compared to an industry average of 5%.

Service Improvements - Overseas Pensioners

Following the successful introduction of our digital Proof of Life process, we've extended our partnership with Crown Agents Bank (CAB). We transferred our overseas payment services to CAB in December 2023, consolidating all our services for overseas pensioners with one provider.

This change has allowed us to enhance our payment services for overseas members and, with a minor adjustment to our internal process, submit our payment file for overseas pensioners in advance so they now receive their payments on the same day as UK based members, rather than up to three days later. This allows us to provide a consistent service to all our pensioners.

We've also recently completed our second annual Proof of Life exercise with CAB, with over 86% of members completing the exercise using the enhanced digital process.

PERFORMANCE AND ADMINISTRATION

Service Improvements – Reporting a death

We know that the death of a loved one is a very difficult time, so over the course of the last 12 months, we've taken steps to review and enhance our deaths reporting process to make it easier for our members' next of kin. We performed a customer journey mapping exercise with the help of surviving spouses to our members, which gave positive feedback to improve our death reporting process. We've taken further steps to try and enhance the process including:

- Setting up a "Report a Death" page on our website to allow the next of kin an additional channel of choice to provide us with information and upload relevant documents securely
- Asking for survivor's bank details when they call/email/report online regarding a death and using our online systems to ensure it passes our anti-fraud checks, avoiding the need for additional postal communication.

These updates have been well received and are a positive step in making a very difficult time easier and faster.

Member Tracing and Mortality Screening

We continue to improve the accuracy of member records in accordance with the Pensions Regulator's legislation on record keeping. In addition to improving our records, regular member tracing and mortality screening will improve the effectiveness of the communication between Lothian Pension Fund and our members. Up to date record keeping allows us to alert members timeously with information about elections or choices they're required to make in relation to their benefits that may affect their rights under the scheme.

We regularly conduct UK and overseas address tracing for members we've lost contact with as well as mortality screening, which allow us to update member records with their correct address and to check the existence of members. This avoids overpayment of benefits where pensioner members are deceased as well as alerting the Fund where deferred beneficiaries have died, and a benefit may be payable.

COLLEAGUE PROFILE MEGHAN FOLEY, SENIOR EMPLOYER ADMINISTRATOR

Meghan joined as a member services trainee in June 2020 and became fully qualified in May 2022. She moved to the employer team in September 2023 where her main role is working between the member team and employers to help process cases, as well as arranging training for employers and seminars for members.

"Working at LPF you're always surrounded by friendly and supportive people, but what I admire the most is how committed everyone on the team is to do their best for our members. Every day is different and there're always new opportunities to forward my career."

PERFORMANCE AND ADMINISTRATION

Employer performance

The Pensions Administration Strategy sets out the roles and responsibilities of both the fund and employers, specifying the levels of services the parties will provide to each other, and referring to four key areas where the fund will pass on the costs of poor performance from employers:

- Late payment of contributions
- Late submission of membership information at the end of the year
- Failure to supply the Fund with information required to provide members with pensions savings statements
- Failure to provide details of member contributions monthly.

These areas are particularly important to ensure compliance with legislation, including accurate data to administer the career average pension scheme, and the requirement to provide members with a pension forecast by 31 August each year. Charges for late payment of contributions are as stated in the Scheme Regulations, whilst other recovery of costs has been set to reflect the additional time spent resolving queries and pursuing late information.

WHAT OUR MEMBERS SAY:

"I'm comforted that my pension is with Lothian Pension Fund. I trust the fund to manage my pension appropriately and I appreciate the updates at relevant times."

PERFORMANCE AND ADMINISTRATION

Since the strategy was introduced, provision of early leaver and retiral information from employers has been well below the expected standard. During 2023/24, our officers took a variety of approaches to improve employer performance, including:

- Providing training to payroll/HR colleagues in person and via Microsoft Teams
- Presenting performance updates at virtual meetings
- Escalating to senior officers at quarterly employer meetings
- Monitoring with employers where performance has been particularly poor
- Publishing a guide for employers to help them complete our processes within agreed timescales.

To improve service to members, indirect costs can now be recovered from an employer if any persistent and ongoing administration failures occur, with no improvement demonstrated, or if they're unwilling to resolve the identified issues.

We monitor employer performance against the standards set out in the Pension Administration Strategy. Results are reported to employers in an annual performance report, with more regular reporting for larger employers.

Overall employer performance for 2023/24 is shown below, with 2022/23 shown for comparison purposes.

		2022/23			2023/24		
Case type	Target (working days)	Number received	Number within target	% within target	Number received	Number within target	% within target
New members	20	7,553	6,979	92%	6,672	6,295	94%
Leavers	20	4,575	2,609	57%	4,180	2,479	59%
Retirements	20	1,450	517	36%	1,667	694	42%
Deaths in Service	10	15	5	33%	46	30	65%

PERFORMANCE AND ADMINISTRATION

All employers submit new starters through i-Connect, which has improved the performance again this year. Only exceptional cases aren't met within target.

Whilst the provision of leaver information has improved, a high percentage are still being received out of target. The fund amended the process for employers submitting early leavers with post 2015 service only. These members are now submitted along with the monthly i-Connect submission and no form is required. Due to the timing of the submission and the date that the member left, a number of cases are being received between 21 and 35 days after the date of leaving. We'll therefore be looking to amend our Pensions Administration Strategy so that employers are not penalised in these cases.

Retirement information should be provided by employers 20 working days before the retirement date, however most retirement information was again provided later than this. Like last year, in just over a quarter of cases information was provided between 10 and 19 days before the retirement date, however in 40% of cases, information was received after the member's retirement date. As noted above, we continue to work with employers to improve performance.

Contributions by value paid on time

99.9% of contributions by value were paid on time. Of the 738 payments made, five were paid late and these are shown in the table. The option to levy interest on overdue contributions wasn't exercised in 2023/24 as late contributions weren't received significantly later than the 19th day.

Employer	Number of late payments	Employer	Number of late payments
BEAR Scotland	1	Museums Galleries Scotland	1
Canongate Youth Project	1	North Edinburgh Dementia Care	1
Dacoll	1		
TOTAL			**5**

OUR COLLEAGUES

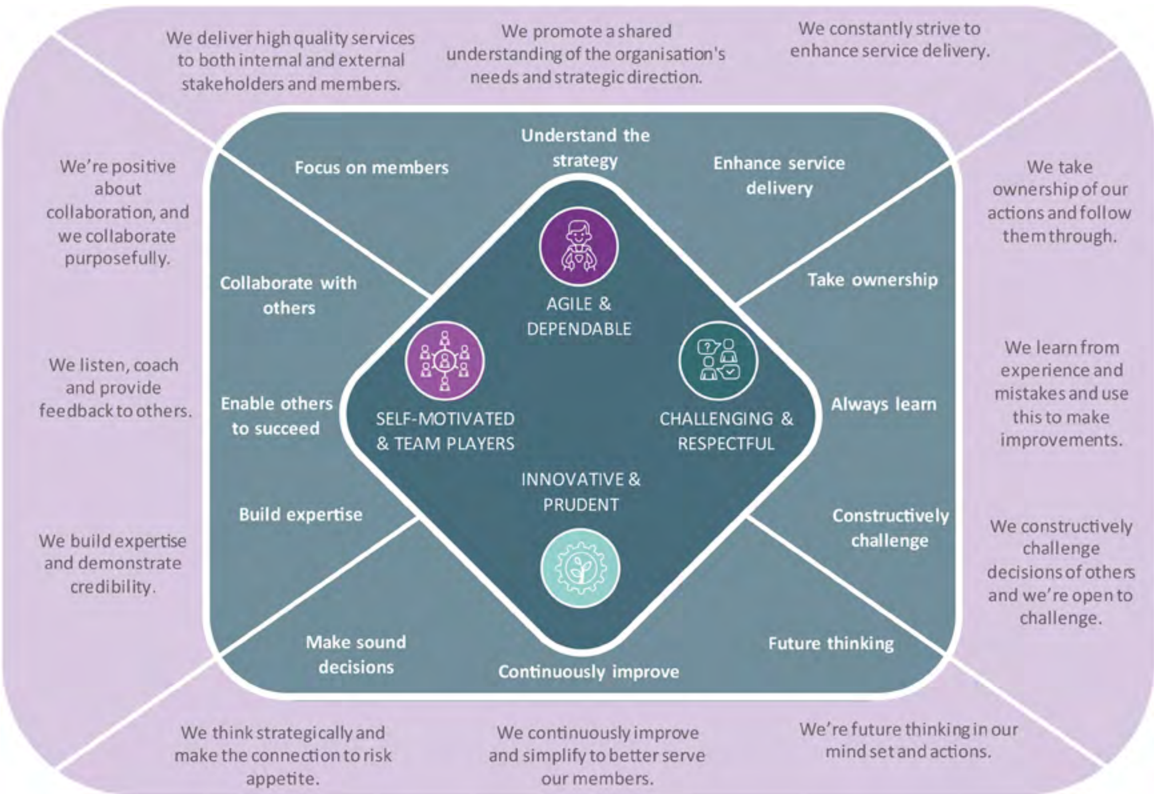
Our colleagues

Engaging our colleagues is critical to delivering our strategy and ambition. We firmly believe that having happy and motivated colleagues helps us deliver for our members, employers and stakeholders.

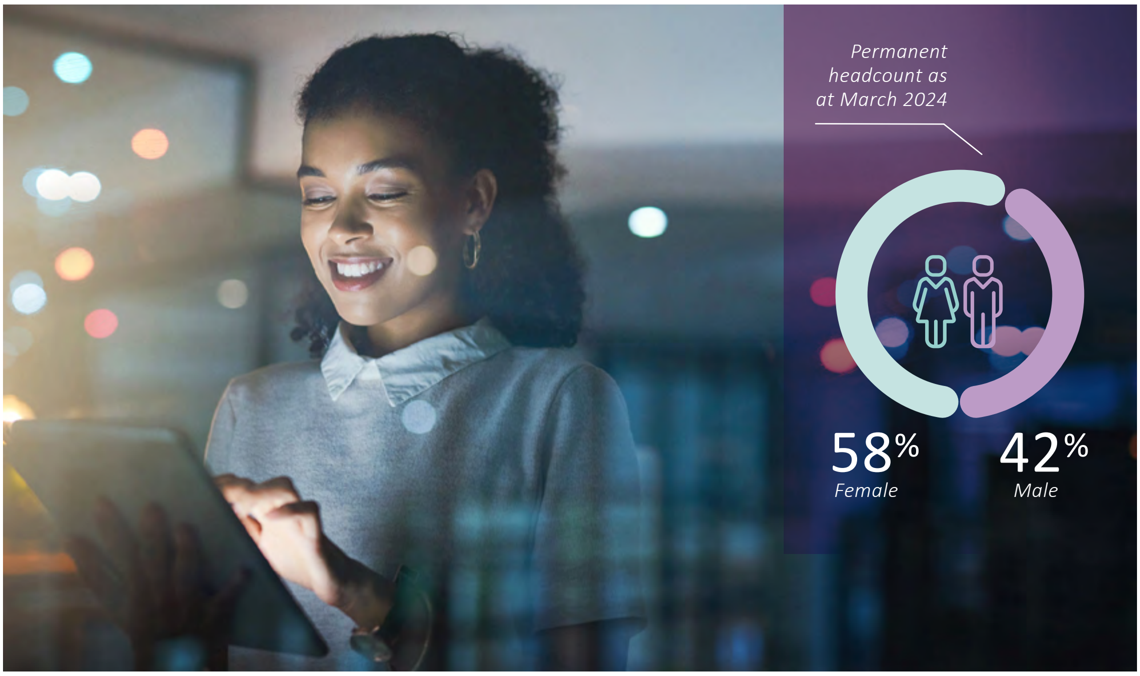
Our core values

We're passionate about pensions and our values are enduring principles that inform, inspire and instruct our day-to-day behaviour. We're proud to be:

- **Agile and dependable**
  We approach work with an open and flexible attitude and take responsibility to manage our work effectively and efficiently. We also embrace new processes in a consistent and reliable way
- **Self-motivated and team players**
  We actively participate as individuals, taking pride and responsibility in what we do. At the same time, we show awareness for the team and ensure our objectives support the team's objectives
- **Challenging and respectful**
  We appreciate the need to challenge the status quo and ask questions in a constructive and respectful way
- **Innovative and prudent**
  We always look to improve processes and practices and ensure we do this in a way that's safe and protects LPF from unnecessary risk.



OUR COLLEAGUES



Inclusivity

We're one team, but we represent many ideas, experiences and backgrounds. We value everyone's contributions and believe that our colleagues should be their whole self at work. We want a diverse, inclusive and respectful workplace and this will be achieved by driving a positive environment. As at 31 March 2024 our permanent headcount was 58% female and 42% male.

We recognise the many strengths and talents our diverse colleagues bring to the workplace so we're taking steps to make sure that LPF is as inclusive as possible for both our colleagues and members:

- We're accredited with Disability Confident and more importantly, committed to review and improve everything we do with respect to recruitment and employment
- Through Disability Confident, we'll work to ensure that disabled people and those with long term health conditions can fulfil their potential and realise their aspirations with us as an employer
- During 2023 we partnered with Girls Are Investors (GAIN) and offered two internships
- We're proud to be one of the first firms in Scotland to partner with Future Asset and during 2023 we offered four work experience placements for senior school girls. Future Asset aims to raise aspirations and confidence in girls in S4-S6, encouraging them to choose ambitious career paths, and informing them about rewarding opportunities in investment.

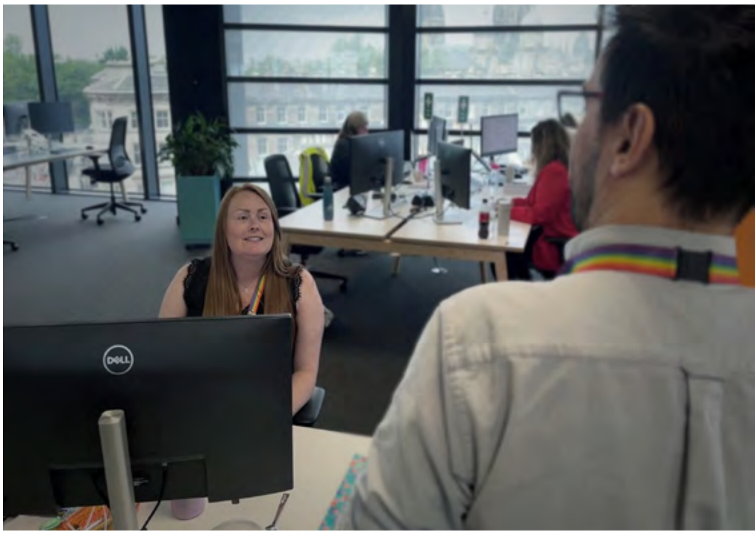
LOTHIAN PENSION FUND

56,930

Total number of benefit statements we delivered in June 2023.

OUR COLLEAGUES

Gender balanced



We continue to work towards our goal of being fully gender balanced across the organisation by 2030.

- As at 31 March 2024 we have, on aggregate, 53% women in our top three leadership layers and across the whole company, 58% of our workforce are women
- Our mean gender pay gap is 21.9%
- Our positive action approach for gender, which is benchmarked externally, is helping to ensure that our people policies and processes are inclusive and accessible, from how we attract and recruit, to how we reward and engage our colleagues
- In 2023/24 we recruited 12 colleagues; seven of these were women.

Performance and reward

Our approach to performance management provides clarity for our colleagues about how their contribution and performance links to our vision and values. We're transparent with our pay structures to ensure our colleagues understand that they're paid fairly for their performance in line with industry best practices.

We make sure that colleagues have a common awareness of the financial and economic factors affecting LPF's performance through monthly all colleague calls and biannual events. More information on our remuneration policies and employee share plans can be found later in this document.

Developing skills and capabilities culturally

Becoming a learning organisation is one of our priorities. We ensure that colleagues have the required skills and qualifications to perform their roles and prepare them for the future. We're committed to developing colleagues in key areas we've identified that will help build the right knowledge, skills, and behaviours to help them stay relevant and employable and support our ambition and purpose. In addition, we're encouraging agility and shifting mindsets so that a focus on the future, continuous learning, knowledge-sharing and reflective practice becomes the norm.

Our Learning Management System, gives our colleagues the opportunity to expand their own development as well as complete our quarterly core learning. This platform allows us to regularly report on our company learning targets and our colleagues can record all their continued professional development (CPD) in one place. As of 31 March 2024, 100% of our colleagues had completed their 20 hours of annual CPD.

OUR COLLEAGUES

Health and wellbeing

We firmly believe that colleague wellbeing is linked to a successful and happy workforce. All colleagues have access to our free Employee Assistance Programme which offers help and advice on topics like health, legal, finance and lifestyle.

We take our colleagues' wellbeing very seriously and to support this, we continue to develop our suite of Moments that Matter documents focusing on mental health, physical health, financial health, relationships, and life changing events. These documents are aimed to help colleagues and managers recognise signs and symptoms of wellbeing concerns and where to find help and support. They're also available to our members on our website www.lpf.org.uk.

Throughout 2023 we held various sessions focusing on wellbeing. During Mental Health Awareness Week, we planned activities to promote metal health and we invited an external speaker to talk about building personal resilience and taking care of our mental health.

During Pride month we raised awareness of the current issues facing the LGBTQA+ community by sharing key messages with the team and suggesting ways for everyone to get involved. And we continued to sponsor the Edinburgh Pride march in Edinburgh.

On Mental Health Day, we welcomed Andy's Man Club to talk about the services that they offer.

Charity days

During 2023 several teams across the organisation completed various charity days to help support our local communities. The teams carried out a variety of activities including gardening and maintenance to support the local community.

Management commentary approved by:

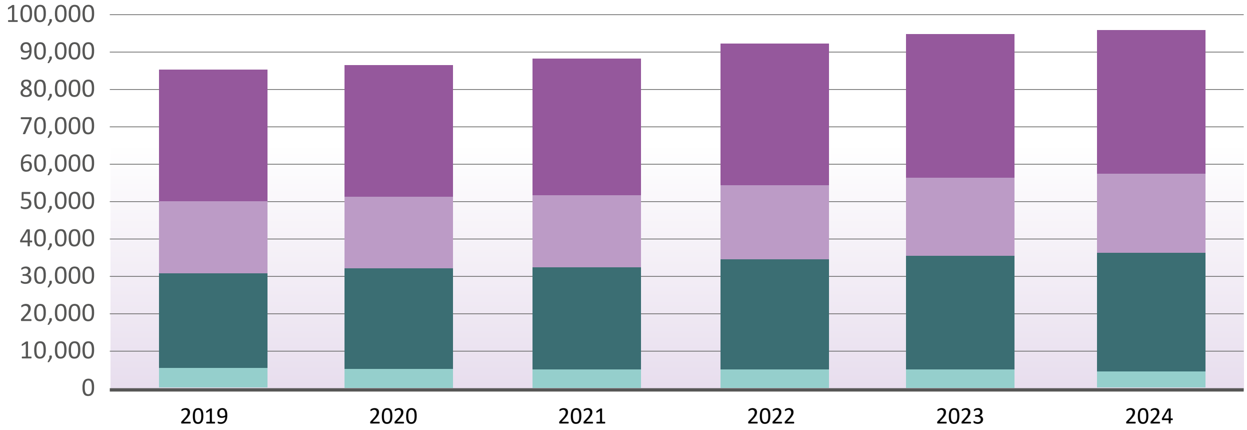
Paul Lawrence
Chief Executive Officer
The City of Edinburgh Council
25 September 2024

David Vallery
Chief Executive Officer
Lothian Pension Fund
25 September 2024

Deborah Smart
Service Director:
Finance and Procurement
The City of Edinburgh Council
25 September 2024

LOTHIAN PENSION FUND INVESTMENT STRATEGY

LOTHIAN PENSION FUND MEMBERSHIP DATA



	2019	2020	2021	2022	2023	2024
Active	35,014	35,874	36,149	37,207	37,614	37,590
Deferred	19,094	19,098	19,049	19,832	20,427	20,721
Pensioner	25,627	27,091	27,843	28,870	29,800	31,112
Dependant	4,199	4,229	4,173	4,161	4,155	4,189

Investment strategy

The Fund's investment strategy for financial year 2024 was previously approved by the Pensions Committee in June 2021. Alongside completion of the 2023 actuarial valuation, the Pensions Committee approved a revised investment strategy to take effect from 1 April 2024 onwards, the details of which will be included in next year's Annual Report.

The objective of the fund's investment strategy is the achievement of the discount rate, the return that the Actuary prudently assumes will pay pensions as they fall due and will also be consistent with affordable and stable employer contribution rates.

The Fund's investment strategy reflects the target asset allocation expected to generate sufficient investment returns, alongside contributions, in order to pay pension liabilities in the future. For most employers, these liabilities stretch out for decades. Consequently, the strategy allocates a substantial portion of the fund to assets that are expected to grow in real terms over the long term, such as equities. However, given that these types of assets are volatile, and that the future is uncertain, the strategy includes other asset types to diversify risk. The macroeconomic backdrop also influences the formation of the investment strategy and its implementation and given the more inflationary environment in recent years, supports the emphasis on real assets that have a history of providing some protection to investors against inflation.

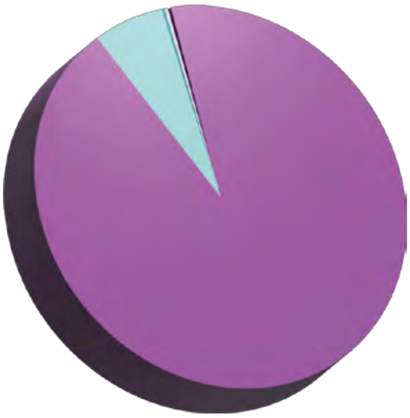
There were no changes to fund strategy over the year to end March 2024, with the revised strategy taking effect from 1 April 2024. The Total Fund Strategy percentages shown below are a weighted average of the employer strategies. Movements in the relative size of these strategies has resulted in modest changes to the Total Fund Strategy weightings.

LOTHIAN PENSION FUND INVESTMENT STRATEGY

Employer strategies

Lothian Pension Fund is a multi-employer pension scheme and not all employers are alike. To address their differing funding requirements the Fund operates four distinct investment strategies. The assets in each strategy are shown in the table below. Employers fund their liabilities with the strategy that reflects their ability to tolerate risk.

EMPLOYER GROUP STRATEGIES 31 MARCH 2024



- Main Strategy **94.5%** (£9,622m)
- Buses Strategy **5.0%** (£505m)
- 50/50 Strategy **0.4%** (£37m)
- Mature Employer Strategy **0.1%** (£13m)

TOTAL WEIGHT 100%
TOTAL ASSETS 10,178 (£m)

Most employer liabilities are funded under the Main Strategy, which adopts a long-term investment strategy, aiming to generate an investment return that will minimise the cost to the employer within reasonable and considered risk parameters. The Main Strategy maintains significant exposure to real investments, such as Equities and Infrastructure, which have a history of protecting and growing purchasing power.

A small number of employers are funded in the Mature Employer Strategy, which invests in a portfolio of UK index-linked gilts to reduce funding level and contribution rate risk as they approach exit from the fund. The liabilities funded by the Mature Employer Strategy represent approximately 0.1% of total assets.

The 50/50 Strategy enables another small group of less mature employers to fund liabilities with a 50/50 mix of the Main Strategy and the Mature Employer Strategy. The liabilities funded by the 50/50 strategy represent a further 0.4% of total assets.

The Buses Strategy, which was created when the assets and liabilities of Lothian Buses Pension Fund were consolidated into the Lothian Pension Fund on 31 January 2019, is a 55/45 mix of the Main Strategy and the Mature Employer Strategy. As part of the recently completed investment strategy review, the Buses Strategy will move to a 50/50 mix with effect from 1 April 2024. At 31 March 2024, the Buses strategy represented approximately 5.0% of total assets.

LOTHIAN PENSION FUND INVESTMENT STRATEGY

Policy groups

The investment strategies are described in terms of allocations to broad asset classes, or policy groups, which are the key determinants of risk and return. These policy groups are Equities, Real Assets, Non-Gilt Debt, LDI (Gilts) and Cash. Although individual investments within each group will have different risk and return characteristics, each policy group targets a long-term return in relation to the return from UK gilts. The return target provides perspective on the expected risk of each group in relation to fund liabilities.

The table below presents the policy group target allocations of the four investment strategies at end March 2024 along with the Total Fund Strategy, which is the weighted average of the four employer strategies.

LOTHIAN PENSION FUND 31 March 2024	Main strategy	Mature Employer Strategy	50/50 strategy	Buses strategy	Total Fund Strategy
Equities	60.0%	0.0%	30.0%	33.0%	58.5%
Real Assets	20.0%	0.0%	10.0%	11.0%	19.5%
Non-Gilt Debt	10.0%	0.0%	5.0%	5.5%	9.7%
LDI (Gilts)	10.0%	100.0%	55.0%	50.5%	12.3%
Cash	0.0%	0.0%	0.0%	0.0%	0.0%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

Note: Numbers may not sum due to rounding

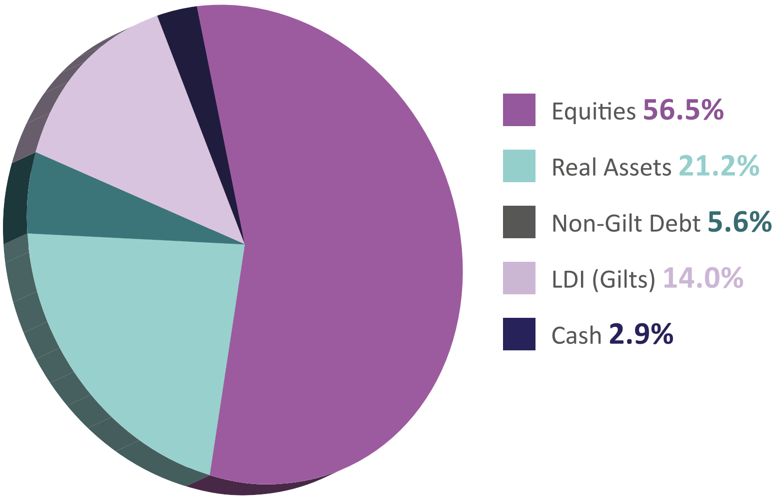
The LDI policy group comprises index-linked and nominal gilts. It doesn't use financial leverage, which caused some pension funds to become forced sellers of assets in the autumn of 2022. This is the lowest risk, lowest expected return policy group as it's possible to match the cash flows of gilts with the pension payments that the fund expects to pay in the future. The purpose of the other policy groups is to generate a return in excess of the gilt return to make the Fund affordable to employers. The other policy groups, therefore, are expected to generate higher returns over the long term – the Actuary models 20 years into the future. These higher returns come at the cost of higher risk or volatility.

Strategy implementation

The Pensions Committee delegates implementation of investment strategy to the fund's officers, who are tasked with investing each policy group within specified ranges. These are laid out in the Statement of Investment Principles. The actual allocation at end March 2024 is presented in the pie chart below. The largest deviation from strategy is the underweight position in non-gilt debt (-4.1%) as credit spreads are deemed broadly unattractive at current levels. The fund's exposure to Equity (-2%) and Real Assets (+1.7%), which should help protect against inflation, is broadly in line with target. Exposure to both Cash and LDI (gilts) is above target at +2.9% and +1.7% respectively. The fund has operated comfortably within the prescribed ranges over the year.

LOTHIAN PENSION FUND INVESTMENT STRATEGY

ACTUAL ASSET ALLOCATION TOTAL FUND 31 MARCH 2024



Within policy groups, the fund pays careful attention to risk taken to achieve returns and the cost of implementation. Within Equities, for example, the strategy typically focuses on lower risk securities and has a lower exposure to higher risk securities, meaning that its portfolio is lower risk than the standard global equity benchmark. There's an understanding that this may mean giving up some of the upside when markets are very strong but providing relative protection when markets are weak. Another benefit of this approach is that it helps to maintain a low cost of implementation as turnover is generally quite low. Also contributing to a low cost of implementation is the internal management of approximately 90% of equity assets.

The Real Assets policy group allocation has grown substantially over the last several years. The investments in this diverse category are comprised of (very largely UK) property, a wide range of infrastructure assets, including a variety of renewables, regulated utilities and other essential assets and timberlands. Again, there's a wide range of expected risk and return associated with these types of private market assets. The fund seeks long-term, defensive investments with inflation protection or correlation, and expects returns and risk to be somewhat lower than those from the Equity policy group and for the assets to provide some diversification benefit.

The Non-Gilt Debt policy group comprises investments in various non-gilt debt securities. However, as its purpose in the fund is to diversify equity risk, it eschews most high yield debt instruments, which are riskier and strongly correlated with equities. The fund also invests in overseas sovereign bonds, which are included in this policy group.

The LDI policy group comprises index-linked and nominal gilts. This is typically the lowest risk, lowest expected return policy group. These can be thought of as matching assets, where the cash flows of gilts can broadly match the profile of future expected pension payments. In that sense, increased exposure to LDI (gilts) can be expected to reduce funding level risk.

LOTHIAN PENSION FUND INVESTMENT STRATEGY

Investment portfolio changes

The table below shows the changes to asset allocation over the year. These were relatively small and reflect both market movements and investment activity.

POLICY GROUP	Actual Allocation 31 March 2023	Actual Allocation 31 March 2024	Change %
Equities	58.0%	56.5%	-1.5%
Real Assets	20.0%	21.1%	+1.1%
Non-Gilt Debt	6.3%	5.7%	-0.6%
Gilts	11.1%	14.0%	+2.9%
Cash	4.7%	2.8%	-1.9%
Total	**100%**	**100%**	

Note: Numbers may not sum due to rounding

The Equity allocation has reduced somewhat over the last twelve months. While underlying returns have been strong, the fund has continued to sweep dividend income from the three large internally managed global equity portfolios. This has helped to fund the increased exposure to LDI (gilts).

The Real Assets allocation increased during the year, primarily due to net new investment activity. New infrastructure investments were made throughout the year, which offset distributions of income and capital for existing private market investments. This resulted in the fund being modestly overweight versus the target Real Asset allocation at 31 March 2024.

The allocation to Non-Gilt Debt fell modestly over the year, as a result of distributions and somewhat weak relative returns. In contrast, the exposure to LDI (or gilts) increased by almost 3%, despite weak returns. The fund has been gradually increasing exposure to this area over the last 18 months or so, with real yields on offer now significantly more attractive than they’ve been for many years. The fund has a modest overweight position in LDI (gilts) at period end.

The net result of the changes was a modest reduction in cash.

There were no changes to investment strategy during the period; changes to Total Fund Strategy allocation weightings over the year were solely a result of movements in the relative size of the underlying strategies. The changes to actual asset mix, while more significant, were also relatively minor. The largest actual change was the increased allocation to LDI (gilts) funded from cash and a reduction in equities.

LOTHIAN PENSION FUND INVESTMENT STRATEGY

Investment performance

The investment objective of the fund is to achieve a return on assets sufficient to meet the funding objectives over the long term as outlined in the Funding Strategy Statement. In effect, the fund aims to generate adequate returns to pay promised pensions and to make the scheme affordable to employers now and in the future, while minimising the risk of having to increase contribution rates in the future.

This aim is translated into a strategic benchmark comprising a mix of assets, whose future returns are expected to approximate the required returns over the long term. The fund isn't expected to track the benchmark from year to year, but it does target a return broadly in line with its strategic benchmark allocation over the long term, with a lower-than-benchmark level of risk.

Fund returns may deviate from benchmark returns, particularly over shorter timeframes. There are two main reasons why this may occur: most underlying portfolios aren't constructed to track listed market benchmarks, and private market benchmarks may not be well suited to short term comparisons against the relevant private markets assets.

The fund's performance over the last year and over longer-term timeframes is presented in the table below, both relative to the asset benchmark and with other relevant economic metrics. UK CPI and Average Weekly Earnings are both measures of inflation and fund liabilities are, of course, linked to long-term inflation. Both had grown at low and relatively stable rates for many years until recently.

Annualised returns to 31 March 2024 (% per year)	1 year	5 years	10 years
Lothian Pension Fund	5.5	5.5	8.2
Benchmark*	8.8	4.5	7.3
Average Weekly Earnings (AWE)	5.9	5.4	4.0
Consumer Price Index (CPIH All Items)	3.8	4.2	2.9

**Comprises equity, 'gilts plus' and gilts indices*

COLLEAGUE PROFILE ALBERT CHEN, PORTFOLIO MANAGER

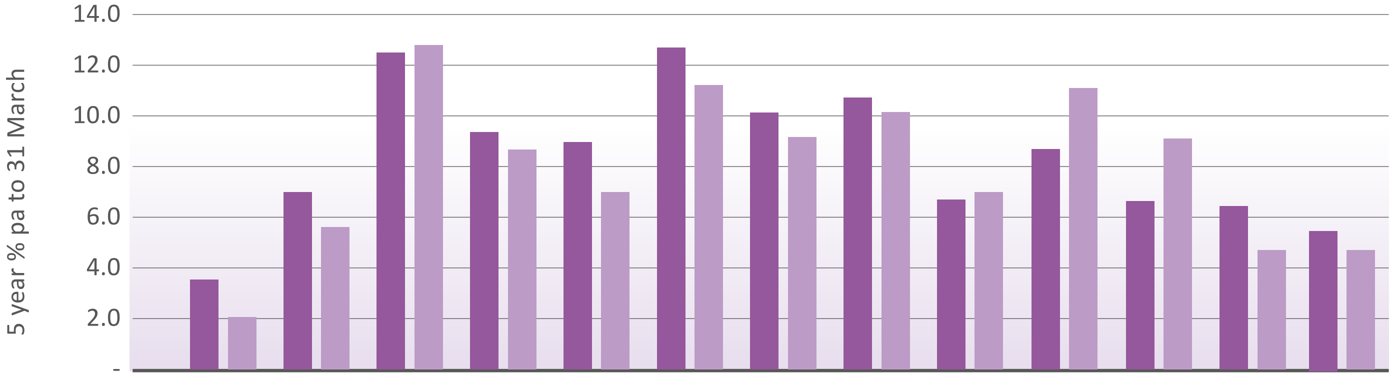
Albert joined LPF in January 2017 as a portfolio manager. Albert has responsibility across a range of the Lothian Pension Fund's investments, including listed equities, private debt and private equity. He also contributes to the investment strategy as a member of the Asset Allocation Committee and supports work with collaborative partner funds and on LGPS issues.

"I really enjoy being part of a team focused on generating positive investment outcomes for the fund, its members and employers. Working with like-minded partners on shared issues and challenges are also a really satisfying part of my role."

LOTHIAN PENSION FUND INVESTMENT STRATEGY

The following bar chart presents the underlying performance data in a long-term context. It shows rolling 5-year returns for the fund, its asset-based benchmark, and the relative return. The historical record highlights that these numbers fluctuate meaningfully over time, and so caution is required when interpreting individual data points. It's important to remember that the objective of the fund is to balance both risk and return. While the chart below looks solely at the return component, the table with policy group components (below the bar chart) adds the perspective of the risk taken to achieve those returns.

ANNUALISED 5 YEARLY RETURNS ENDING 31 MARCH (% PER YEAR)



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Fund	3.6	7.1	12.7	9.5	9.1	12.9	10.3	10.9	6.8	8.5	6.5	6.3	5.5
Benchmark	2.1	5.7	13.0	8.8	7.1	11.4	9.3	10.1	7.1	11.8	8.6	4.5	4.5
Relative	+1.5	+1.4	-0.3	+0.7	+1.9	+1.5	+1.0	+0.8	-0.3	-3.2	-2.1	+1.7	+1.0

LOTHIAN PENSION FUND INVESTMENT STRATEGY

The following table presents the fund's risk and return over 1, 5 and 10 years as calculated by its independent performance measurement provider. It breaks down the performance by policy group where available. Due to changes to the structure of the fund, only one policy group has meaningful 10-year data.

TO END MARCH 2024

POLICY GROUP	1 year (%)		5 year (% pa)		10 year (% pa)	
	Fund	Benchmark	Fund	Benchmark	Fund	Benchmark
Equities	9.4	20.6	8.2	11.6	9.8	11.7
Real Assets	4.6	-9.6	6.4	-6.8	8.4	-0.7
Non-Gilt Debt	1.8	6.3	1.9	-0.2	5.6	3.0
LDI (Gilts)	-11.1	-11.9	-9.8	-10.0	0.2	0.4
Total Fund Return	**5.5**	**8.8**	**5.5**	**4.5**	**8.2**	**7.3**
Total Fund Risk*	**5.6**	**10.7**	**7.0**	**11.7**	**6.7**	**9.6**

**1 year predicted; 5 years ex-post (source: Portfolio Evaluation)*

The fund produced an absolute return of +5.5% over the twelve months to end Mar 2024, which was behind the benchmark return of +8.8%. This return was achieved with notably lower than benchmark risk.

Good absolute returns were achieved within Equities and, to a lesser extent, Real Assets. The fund's equities gained 9.4% over the year, behind the global index (MSCI ACWI in GBP) return of +20.6%. This underperformance should be viewed in the context of notable outperformance in the prior 1-year period, the lower risk equity exposure of the Fund, and the very strong absolute returns of the index which were predominantly driven by a small handful of stocks.

Within the Real Assets category, the return of +4.6% was led by strength in unlisted infrastructure (+7.3%) and timber and agriculture (+7.1%) investments. The Fund's property exposure returned -2.8% over the year.

There were modest gains within the Non-Gilt Debt policy group (+1.8%) and a -11.1% return for LDI (gilts). The fund had been underweight versus strategic target in LDI (gilts) for some time but, with real yields on offer now significantly more attractive than they've been for many years, it has gradually moved to a modest overweight position.

Five-year fund returns were above benchmark at +5.5% p.a. vs +4.5% p.a. and over ten years the comparison was +8.2% p.a. vs +7.3% p.a. In summary, over both of these longer time periods, fund returns have been above benchmark.

From a risk perspective, the fund has achieved its returns with notably lower levels of volatility than its benchmark (approximately 60% of benchmark risk over five years and 70% over ten years), so from a risk / return perspective the outcomes were notably better than expected over these longer timeframes.

76.4%

Success rate of eligible members completing their retirement online.

LOTHIAN PENSION FUND ACCOUNT FOR YEAR ENDED 31 MARCH 2024

Financial statements

This statement shows a summary of the income and expenditure that the Pension Fund has generated and consumed in delivering the Local Government Pension Scheme. Included are employers' and employees' contributions and investment income, as well as the cost of providing benefits and administration of the fund.

Lothian Pension Fund				Lothian Pension Fund	
Parent	Group			Parent	Group
2022/23 Restated	2022/23 Restated			2023/24	2023/24
£000	£000		Note	£000	£000
		Income			
201,867	201,867	Contributions from employers	5	218,550	218,550
57,383	57,383	Contributions from members	6	61,769	61,769
6,551	6,551	Transfers from other schemes	7	14,219	14,219
265,801	**265,801**			**294,538**	**294,538**
		Less: expenditure			
206,225	206,225	Pension payments including increases	8	229,799	229,799
52,541	52,541	Lump sum retirement payments	9	57,838	57,838
9,489	9,489	Lump sum death benefits	10	9,254	9,254
845	845	Refunds to members leaving service		1,007	1,007
11,689	11,689	Transfers to other schemes	11	13,294	13,294
3,202	1,088	Administrative expenses	12a	3,865	5,205
283,991	**281,877**			**315,057**	**316,397**
(18,190)	**(16,076)**	**Net (withdrawals)/additions from dealing with members**		**(20,519)**	**(21,859)**
		Returns on investments			
339,114	339,114	Investment income	13	316,787	316,787
(194,922)	(194,922)	Change in market value of investments	15, 20b	288,912	288,912
(38,075)	(32,728)	Investment management expenses	12b	(37,569)	(40,651)
106,117	**111,464**	**Net returns on investments**		**568,130**	**565,048**
87,927	**95,388**	**Net increase in the fund during the year**		**547,611**	**543,189**
9,607,286	**9,605,243**	**Net assets of the fund at 1 April 2023**		**9,695,213**	**9,700,631**
9,695,213	**9,700,631**	**Net assets of the fund at 31 March 2024**		**10,242,824**	**10,243,820**

LOTHIAN PENSION FUND
NET ASSETS STATEMENT AT 31 MARCH 2024

This statement provides a breakdown of type and value of all net assets at the year end.

Lothian Pension Fund				Lothian Pension Fund	
Parent	Group			Parent	Group
31 March 2023 Restated	31 March 2023 Restated			31 March 2024	31 March 2024
£000	£000		Note	£000	£000
		Investments			
9,650,374	9,650,374	Assets		10,269,942	10,269,942
(9,386)	(9,386)	Liabilities		(79,523)	(79,523)
9,640,988	**9,640,988**	**Net investment assets**	**14**	**10,190,419**	**10,190,419**
		Non current assets			
10,688	10,688	Debtors	24	9,701	9,701
486	486	Computer systems		734	734
690	-	Share Capital	29b	1,690	-
-	4,866	Retirement benefit obligation	30	-	-
-	-	Deferred tax	29a	-	-
11,864	**16,040**			**12,125**	**10,435**
		Current assets			
2,311	2,311	The City of Edinburgh Council	28	2,825	2,825
44,224	45,703	Cash balances	21, 28	39,683	42,762
21,221	21,891	Debtors	25	22,465	22,982
67,756	**69,905**			**64,973**	**68,569**
		Non current liabilities			
-	-	Retirement benefit obligation	30	-	-
-	(213)	Deferred tax	29a	-	-
-	(16)	Creditors		-	(12)
-	**(229)**			**-**	**(12)**
		Current liabilities			
-	-	Provision for onerous lease	31	(112)	(112)
(25,395)	(26,073)	Creditors	26	(24,581)	(25,479)
(25,395)	**(26,073)**			**(24,693)**	**(25,591)**
9,695,213	**9,700,631**	**Net assets for the fund**		**10,242,824**	**10,243,820**

LOTHIAN PENSION FUND ACCOUNTS

The unaudited accounts were issued on 26 June 2024 and the audited accounts were authorised for issue on 25 September 2024.

Alan Sievewright
Chief Finance Officer,
Lothian Pension Fund
25 September 2024

Notes to the net asset statement

The Financial Statements summarise the transactions of the fund during the year and its net assets at the year end. They don't take account the obligations to pay pensions and benefits which fall due after the end of the year. The actuarial position of the fund, which does take account of such obligations, is discussed in the Actuarial Valuation section of this report and these financial statements should be read in conjunction with that information. In addition, as required by IAS26, the Actuarial Present Value of Promised Retirement Benefits is disclosed in the notes to these Financial Statements.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

1 Statement of accounting policies

The statement of accounting policies for all funds can be found on page 149.

2 Prior Year Adjustment

Prior Year Restatement of Property Expenses

Property investment costs directly attributable to capital works are reclassfied away from expenses and capitalised to the base costs of the property on the balance sheet. LPF have identified expenses of £6.9m relating to 2022-2023 which were capital costs in nature and therefore have performed a prior year restatement to correct the classification of these expenses.

a) The Property operational costs disclosed within note 12b has been restated from £7,165k to £297k as a result of this reclassification of £6,867k of capital expenses.

b) The change in market value of investments disclosed within note 15 & 20b has been restated from £188,055k to £194,922k as a result of the capitalised expenses

	2022/23 Audited	Asjustment	2022/23 Restated
By category	**£000**	**£000**	**£000**
Investment management expenses - note 12b	44,942	(6,867)	38,075
Change in the market value of investments - note 15 & 20b	(188,055)	(6,867)	(194,922)

Prior Year Restatement of the Fair Value Heirarchy

In preparing the Fund's Financial Statements, PRAG guidance for preparing the Fair Value Heirarchy was updated to promote UK gilts, US treasury bonds and other highly liquid exchange traded bonds, as level 1 assets, where in the prior period they were classified as level 2.

Therefore, the prior year classification of bonds within the fair value hierarchy of note 20c has been restated to level 1 from nil to £1,441,616k with level 2 subsequently being written down to nil.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

3 Lothian Pension Fund Group

Basis of consolidation, presentation of financial statements and notes

Commencing with the year ended 31 March 2018, Consolidated Financial Statements have been prepared for Lothian Pension Fund. The Financial Statements of Scottish Homes Pension Fund continue to be prepared on a single entity basis.

The Consolidated Financial Statements for Lothian Pension Fund are prepared by combining the Financial Statements of the Fund (the parent entity) and its controlled entities (LPFE Limited and LPFI Limited) as defined in accounting standard IAS27 - Consolidated and Separate Financial Statements. Consistent accounting policies are employed in the preparation and presentation of the Consolidated Financial Statements. All inter-entity balances and transactions between entities, including any unrealised profits or losses, have been eliminated on consolidation.

Because the controlled entities activities are primarily focused on the provision of services to the Fund, its consolidation has a limited impact on the figures included in the Fund Account and Net Assets Statement of Lothian Pension Fund. An additional column has been added in both the Fund Account and Net Assets Statement, with the figures prior to consolidation being identified as “Parent” and after consolidation as “Group”. In the notes to the accounts, where there is a difference between the parent and group figures they're identified as either “Parent" or “Group”.

Notes	Description
28	Related party transactions and balances Describes transactions during the year and balances at year end which relate to the parent and the companies.
29a	Consolidated Lothian Pension Fund group - LPFE Limited - deferred tax Describes the deferred tax non-current asset of the Company. See 2 f) ii) in the Statement of Accounting Policies and General notes for more information.
29b	Consolidated Lothian Pension Fund group - LPFE Limited and LPFI Limited - share capital Describes the share capital of the Company.
30	Retirement benefits obligation - group Provides the information on the retirement benefits obligation of the Company as required under IAS19 - Employee Benefits. See 2 q) ii) in the Statement of Accounting Policies and General notes for more information.

Prior to the consolidation of the audited group accounts, the LPFE and LPFI boards met on 17 June 2024 to approve their respective audited financial statements for 2023/24. The figures used in the consolidation are from these audited financial statements.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

4 Events after the reporting date

There have been no events since 31 March 2024, and up to the date when these Financial Statements were authorised, that require any adjustments or disclosures to these Financial Statements.

5 Contributions from employers

The total contributions receivable for the administering authority, other scheduled bodies and admitted bodies were as follows:

	2022/23	2023/24
By category	**£000**	**£000**
Primary Contribution (future service)	195,628	212,763
Secondary Contribution (past service deficit)	5,399	5,593
Strain costs	705	1,589
(Cessation Contributions	135	(1,395)
	201,867	**218,550**

	2022/23	2023/24
By employer type	**£000**	**£000**
Administering Authority	75,947	83,865
Other Scheduled Bodies	104,123	109,930
Community Admission Bodies	20,190	23,587
Transferee Admission Bodies	1,607	1,168
	201,867	**218,550**

Employer contributions, as calculated by the Fund Actuary, comprise two elements:

- An estimate of the cost of benefits accruing in the future, referred to as the primary contribution rate previously referred to as the future service rate, which is expressed as a percentage of payroll
- An adjustment for the solvency of the Fund based on the benefits already accrued, known as the secondary contribution rate. If there's a surplus, there may be a contribution reduction; if there's a deficit there may be a contribution increase.

Where an employer makes certain decisions, which result in benefits being paid early, this results in a strain on the Fund. The resulting pension strain costs are calculated and recharged in full to that employer.

Any employer that ceases to have at least one actively contributing member is required to pay cessation contributions.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

6 Contributions from members

	2022/23	2023/24
By employer type	**£000**	**£000**
Administering Authority	20,488	22,199
Other Scheduled Bodies	29,886	30,573
Community Admission Bodies	6,521	8,438
Transferee Admission Bodies	488	559
	57,383	**61,769**

7 Transfers in from other pension schemes

	2022/23	2023/24
	£000	**£000**
Group transfers	-	-
Individual transfers	6,551	14,219
	6,551	**14,219**

8 Pensions payable

	2022/23	2023/24
By employer type	**£000**	**£000**
Administering Authority	87,871	96,493
Other Scheduled Bodies	98,401	96,927
Community Admission Bodies	19,537	35,601
Transferee Admission Bodies	416	778
	206,225	**229,799**

Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998 [Section 31] allows employers to pay additional pensions on a voluntary basis.

As is typical within the Local Government Pension Schemes (LGPS), arrangements exist whereby additional teachers' pensions and employee pensions are paid with the payment of funded pensions. The use of a Fund bank account for these "unfunded transfer payments" is prohibited. Accordingly, for reasons of efficiency and simplicity, the pension payroll is combined and both funded and unfunded pension payments are made through a general fund bank account of the administering authority, City of Edinburgh Council. For the funded LGPS payments, the Fund transfers money from its own bank account to that of the City of Edinburgh Council's to cover the value of these benefits. For the unfunded payments, these are recharged to the employer body (or successor) which originally granted the discretionary benefits.

As “unfunded payments” are discretionary benefits, they're not relevant to the sums disclosed in the Fund accounts. As such, Lothian Pension Fund provides payment and billing services to certain employers on a no charge agency agreement basis.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

9 Lump sum retirement benefits payable

	2022/23	2023/24
By employer type	**£000**	**£000**
Administering Authority	19,160	21,699
Other Scheduled Bodies	29,727	27,577
Community Admission Bodies	3,221	7,960
Transferee Admission Bodies	433	602
	52,541	**57,838**

10 Lump sum death benefits payable

	2022/23	2023/24
By employer type	**£000**	**£000**
Administering Authority	3,421	3,118
Other Scheduled Bodies	5,351	4,936
Community Admission Bodies	708	1,143
Transferee Admission Bodies	9	57
	9,489	**9,254**

11 Transfers out to other pension schemes

	2022/23	2023/24
	£000	**£000**
Group transfers	-	-
Individual transfers	11,689	13,294
	11,689	**13,294**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

12a Administrative expenses

	LPF Parent 2022/23	LPF Group 2022/23	LPF Parent 2023/24	LPF Group 2023/24
	£000	£000	£000	£000
Employee costs	1,937	2,263	2,413	2,369
System costs	508	514	582	592
Actuarial fees	248	248	250	250
External/internal audit fees	84	88	82	84
Legal fees	22	23	8	24
Printing and postage	119	119	148	148
Depreciation	108	108	101	101
Office costs	97	97	193	193
Sundry costs less sundry income	79	88	88	109
IAS19 retirement benefit adjustments - see note 30	-	(2,839)	-	1,416
Deferred tax on retirement benefit obligation - see note 29	-	369	-	(61)
Corporation tax	-	10	-	(20)
	3,202	**1,088**	**3,865**	**5,205**

LPFE, which is a wholly owned subsidiary of the Council, is responsible for providing the staffing resource to administer the pension funds. The Fund has a service level agreement in place with the Council for certain support services. Costs directly attributable to a specific Fund are charged to the relevant Fund, costs that are common to the two Funds are allocated on a defined basis.

COLLEAGUE PROFILE AL SMITH, SENIOR INVESTMENT RISK & COMPLIANCE MANAGER

Al joined us in 2023 as a senior investment risk and compliance manager. His role focuses on the investments side of the business, aiming to ensure that our processes and controls are robust and efficient and meet regulatory and client expectations.

"Since joining LPF in 2023, I've been working on enhancing many areas within the risk and compliance space. I've a very varied role, with interaction across many different teams within the organisation, and everyone has been very welcoming and generous with their time to help build my understanding of the business. Having previously spent 13 years at a multinational asset manager with nearly 1,000 people, working somewhere with a 'family feel' is a welcome change."

LOTHIAN PENSION FUND

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

12b Investment management expenses

	LPF Parent restated 2022/23	LPF Group restated 2022/23	LPF Parent 2023/24	LPF Group 2023/24
	£000	£000	£000	£000
External management fees:				
invoiced	3,175	3,175	2,371	2,371
deducted from capital (direct investment)	24,525	24,525	22,864	22,864
deducted from capital (indirect investment)	606	606	604	604
Securities lending fees	107	107	98	98
Transaction costs - Equities	2,249	2,249	3,010	3,010
Property operational costs	297	297	571	571
Third party - Invest property service charge expense	8,266	8,266	10,415	10,415
Third party - Invest property service charge income	(8,266)	(8,266)	(10,415)	(10,415)
Employee costs	3,876	4,589	4,471	5,744
Custody fees	366	366	409	409
Engagement and voting fees	89	89	88	88
Performance measurement fees	117	117	79	79
Consultancy fees	86	86	159	159
Research fees	503	503	401	401
System costs	1,123	1,136	1,320	1,374
Legal fees	337	447	222	513
Depreciation	172	172	104	104
Office costs	153	153	326	326
Sundry costs less sundry income	294	(1,111)	472	(1,344)
IAS19 retirement benefit adjustments - see note 30	-	(5,525)	-	3,450
Deferred tax on retirement benefit obligation - see note 29	-	719	-	(152)
Corporation tax	-	-	-	-
Corporation tax gains utilised by CEC group	-	28	-	(18)
	38,075	**32,728**	**37,569**	**40,651**

The property operational costs of the fund within 2022/2023 has been restated, please see note 2 for details on the restatement.

LOTHIAN PENSION FUND

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

12b Investment management expenses (cont.)

	Total	Management /Expense fees	Performance related fee	Transaction costs
2023/24	**£000**	**£000**	**£000**	**£000**
Bonds	92	92	-	-
Equities	5,299	2,295	(6)	3,010
Pooled investment vehicles	23,512	13,884	9,018	610
Property	571	571	-	-
Cash and FX contracts	44	44	-	-

	Total	Management /Expense fees	Performance related fee	Transaction costs
2022/2023	**£000**	**£000**	**£000**	**£000**
Bonds	109	109	-	-
Equities	5,321	3,079	(7)	2,249
Pooled investment vehicles	25,167	16,073	9,062	32
Property	297	297	-	-
Cash and FX contracts	65	65	-	-

Investment costs directly attributable to a specific fund are charged to the relevant Fund, costs that are common to both funds are allocated based on the value of the Funds as at the year end.

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are reflected in the cost of investment acquisitions or in the proceeds of investment sales (see note 15 - Reconciliation of movements in investments and derivatives).

The external investment management fees (deducted from capital) above include £9m (£9m direct) in respect of performance-related fees compared to £9.1m in 2022/23 (£9.1m direct).

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

It should be noted that Lothian Pension Fund's disclosure on investment management fees exceed CIPFA's "Accounting for Local Government Pension Scheme Management Costs" revised guidance on cost transparency which came into effect from 1 April 2016. Consistent with previous years, the fund recognises fees deducted from investments not within its direct control (such as 'fund of fund' fees) to give a full picture of its investment management costs. Further details can be found in the "Investment management cost transparency" section of the Management Commentary. This further disclosure highlights an extra £0.6m in costs (2023 £0.6m).

12c Total management expenses

In accordance with CIPFA guidance, the analysis below considers the combined administration and investment management expenses in notes 12b and c and splits out the costs to include a third category covering oversight and governance expenditure.

	LPF Parent restated 2022/23	LPF Group restated 2022/23	LPF Parent 2023/24	LPF Group 2023/24
	£000	£000	£000	£000
Administrative costs	2,687	703	3,083	3,948
Investment management expenses	34,583	31,468	33,097	36,426
Oversight and governance costs	4,010	1,648	5,254	5,482
	41,280	**33,819**	**41,434**	**45,856**

DR DEBORAH SMART

"I was pleased to join LPFE Ltd as Chair in November 2023 alongside Nareen Turnbull who was appointed Director. LPFE employs and manages colleagues for LPF and LPFI, with a particular focus on investment and pensions sector and the aim to deliver the LPF business plan. Colleagues are the foundation of LPF's success, and we're delighted to have welcomed, in the last year, 17 new members of the team including a new Company Secretary for LPFE. The Board also made two appointments to the senior leadership team; Chief Investment Officer and a Chief Finance Officer. As a key item considered by the Board during the year, the LPFE Board also reviewed LPF's future office provision, approving a move to a new office at Haymarket Square in Edinburgh. By building on the excellent work of our predecessors whilst ensuring our colleagues have an effective office space to develop skills and collaborate, we will continue to work towards our aim of providing outstanding pensions and investment services for the benefit of members and employers.
I would like to thank the LPFE Board and colleagues for their hard work over the last year and I look forward to working with them in the future. "

LPFE Board (Chair), CEC Executive Director of Corporate Services

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

13 Investment income

	2022/23	2023/24
	£000	£000
Income from bonds	7,645	10,045
Dividends from equities	192,831	194,364
Unquoted private equity and infrastructure	118,735	76,465
Income from pooled investment vehicles	2,507	3,484
Gross rents from properties	25,983	26,151
Interest on cash deposits	4,968	12,603
Stock lending and sundries	536	491
	353,205	**323,603**
Irrecoverable withholding tax	(14,091)	(6,816)
	339,114	**316,787**

Included within the dividend from equities income for the year is cross border withholding tax yet to be received. The fund’s custodian Northern Trust manages this process and due to the high certainty of success, it's assumed that the fund will make full recovery of these reclaims. For the period of 2023/24 £7,005k of the stated income relates to tax yet to be received. At 31 March 2024 £31,067k (including prior periods) of investment income receivable related to cross border withholding tax. The fund monitors these claims to ensure its optimum tax efficiency and provides an annual progress report to the Pensions Audit Sub-Committee.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

14 Net investment assets

	31 March 2023	31 March 2024
Investment assets	**£000**	**£000**
Bonds		
Public sector fixed interest	243,549	330,587
Public sector index linked gilts quoted	1,198,067	1,369,898
	1,441,616	**1,700,485**
Equities		
Quoted	5,469,139	5,610,224
	5,469,139	**5,610,224**
Pooled investment vehicles		
Private equity, infrastructure, private debt & timber	1,711,625	1,946,321
Property	82,890	124,575
Other	177,904	181,203
	1,972,419	**2,252,099**
Properties		
Direct property	365,745	363,614
	365,745	**363,614**
Derivatives		
Derivatives - forward foreign exchange	2,549	509
	2,549	**509**
Cash deposits		
Deposits	341,424	279,426
	341,424	**279,426**
Other investment assets		
Due from broker	908	1,712
Dividends and other income due	56,574	61,873
	57,482	**63,585**
Total investment assets	**9,650,374**	**10,269,942**
Investment liabilities		
Derivatives		
Derivatives - forward foreign exchange	-	-
	-	-
Other financial liabilities		
Amounts payable for investment purchasing commitments	-	(61,139)
Due to broker	(9,386)	(18,384)
	(9,386)	**(79,523)**
Total investment liabilities	**(9,386)**	**(79,523)**
Net investment assets	**9,640,988**	**10,190,419**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

15a Reconciliation of movement in investments and derivatives

	Market value at 31 March 2023* Restated	Purchase at cost & derivative payments	Sale & derivative receipts	Change in market value	Market value at 31 March 2024
	£000	£000	£000	£000	£000
Bonds	1,441,616	832,276	(463,986)	(109,421)	1,700,485
Equities	5,469,139	1,126,763	(1,296,985)	311,307	5,610,224
Pooled investment vehicles	1,972,419	297,206	(121,021)	103,495	2,252,099
Property	365,745	24,455	(5,854)	(20,732)	363,614
Derivatives - forward foreign exchange	2,549	-	(5,000)	2,960	509
	9,251,468	**2,280,700**	**(1,892,846)**	**287,609**	**9,926,931**
Other financial assets / liabilities					
Cash deposits*	341,424			1,338	279,426
Amounts payable for investment purchasing commitments	-			-	(61,139)
Broker balances*	(8,478)			(35)	(16,672)
Investment income due*	56,574			-	61,873
	389,520			**1,303**	**263,488**
Net financial assets	**9,640,988**			**288,912**	**10,190,419**

** As per CIPFA disclosures the change in market value intentionally does not balance opening/closing market values.*

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are reflected in the cost of investment acquisitions and in the proceeds from sales and are therefore included in the tables above.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

15a Reconciliation of movement in investments and derivatives (cont.)

	Market value at 31 March 2022*	Purchase at cost & derivative payments Restated	Sale & derivative receipts	Change in market value Restated	Market value at 31 March 2023 Restated
	£000	£000	£000	£000	£000
Bonds	1,115,043	1,487,342	(882,212)	(278,557)	1,441,616
Equities	5,434,373	980,072	(985,504)	40,198	5,469,139
Pooled investment vehicles	1,665,038	392,099	(185,094)	100,376	1,972,419
Property	431,303	23,883	(6,437)	(83,004)	365,745
Derivatives - forward foreign exchange	(2,375)	7,468	(2,061)	(483)	2,549
	8,643,382	**2,890,864**	**(2,061,308)**	**(221,470)**	**9,251,468**
Other financial assets / liabilities					
Cash deposits*	837,138			26,512	341,424
Broker balances*	(674)			36	(8,478)
Investment income due*	44,555			-	56,574
	881,019			**26,548**	**389,520**
Net financial assets	**9,524,401**			**(194,922)**	**9,640,988**

** As per CIPFA disclosures the change in market value intentionally does not balance opening/closing market values.*

The value of the investment property as at 31 March 2023 has been restated, please see note 2 for details on the restatement.

15b Reconciliation of fair value measurements within level 3

	Market value at 31 March 2023 Restated	Level 3 transfers		Purchases at cost & derivative payments	Sale & derivative receipts	Unrealised gains / (losses)	Realised gains / (losses)	Market value at 31 March 2024
Pooled investments	£000	in	out	£000	£000	£000	£000	£000
Infrastructure	1,302,278	-	-	270,938	(54,297)	60,279	5,157	1,584,354
Property	19,990	-	-	17,108	(1,004)	(410)	1	35,684
Private equity	32,665	-	-	1,466	(8,516)	2,008	6,310	33,932
Timber	111,058	-	-	0	(241)	3,301	116	114,235
Private debt	269,185	-	-	29,822	(52,606)	(8,008)	4,041	242,434
Freehold property	365,745	-	-	24,455	(5,855)	(21,804)	1,072	363,612
	2,100,921	**-**	**-**	**343,788**	**(122,520)**	**35,366**	**16,697**	**2,374,253**

Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the Fund Account.

The value of the investment property as at 31 March 2023 has been restated, please see note 2 for details on the restatement.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

16 Derivatives - forward foreign exchange

Summary of contracts held at 31 March 2024.

Contract settlement within	Currency bought	Currency sold	Local currency bought	Local currency sold	Asset value	Liability value
			000	000	£000	£000
Up to one month	GBP	AUD	54,350	104,227	509	-
Open forward currency contracts at 31 March 2024					509	-
Net forward currency contracts at 31 March 2024						509
Prior year comparative						
Open forward currency contracts at 31 March 2023					2,549	-
Net forward currency contracts at 31 March 2023						2,549

The above table summarises the contracts held by maturity date; all contracts are traded on an over-the-counter basis.

To maintain appropriate diversification of investments in the portfolio and take advantage of wider opportunities, the Lothian Pension Fund invests over half of the fund in overseas markets. A currency hedging programme, using forward foreign exchange contracts, has been put in place to reduce the extent to which the Fund is exposed to certain currency movements.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

17 Investment managers and mandates

Manager	Mandate	Market value at 31 March 2023 £000	% of total 31 March 2023 %	Market value at 31 March 2024 £000	% of total 31 March 2024 %
In-house	UK all cap equities	295,441	3.1	337,013	3.3
In-house	UK mid cap equities	99,315	1.0	119,040	1.2
Total UK equities		**394,756**	**4.1**	**456,053**	**4.5**
In-house	European ex UK equities	202,168	2.1	196,640	1.9
In-house	US equities	372,923	3.9	419,957	4.1
Total regional overseas equities		**575,091**	**6.0**	**616,597**	**6.0**
In-house	Global high dividend	1,342,866	13.9	1,311,285	12.9
In-house	Global low volatility	1,272,317	13.2	1,296,763	12.7
In-house	Global multi factor value	1,196,232	12.4	1,285,343	12.6
In-house	Global quality	63,719	0.7	123,471	1.2
Harris	Global equities	138,204	1.4	-	-
Nordea	Global equities	329,513	3.4	363,640	3.6
Baillie Gifford	Global equities	170,952	1.8	201,984	2.0
Total global equities		**4,513,803**	**46.8**	**4,582,486**	**45.0**
In-house	Currency hedge	2,549	-	509	-
Total currency overlay		**2,549**	**-**	**509**	**-**
Total listed equities		**5,486,199**	**56.8**	**5,655,645**	**55.5**
In-house	Private equity unquoted	32,744	0.3	33,932	0.3
In-house	Private equity quoted	75,720	0.8	43,904	0.4
Total private equity		**108,464**	**1.1**	**77,836**	**0.7**
Total equity		**5,594,663**	**57.9**	**5,733,481**	**56.2**
In-house	Index linked gilts	756,003	7.8	1,123,288	11.0
In-house	Nominal gilts	51,285	0.5	48,982	0.5
In-house	Mature employer gilts	262,748	2.7	250,368	2.5
Total inflation linked assets		**1,070,036**	**11.0**	**1,422,638**	**14.0**
In-house	Indirect property	82,890	0.9	98,123	1.0
In-house	Property	405,137	4.2	416,087	4.1
In-house	Infrastructure unquoted	1,298,717	13.5	1,523,216	14.9
In-house	Infrastructure quoted	24,845	0.3	20,387	0.2
In-house	Timber	111,058	1.2	114,235	1.1
Total real assets		**1,922,647**	**20.1**	**2,172,048**	**21.3**
Baillie Gifford	Corporate bonds	29,683	0.3	31,589	0.3
In-house	Private debt	269,185	2.8	242,434	2.4
In-house	Sovereign bonds	184,978	1.9	169,018	1.7
In-house	Investment Grade Credit	121,334	1.3	127,373	1.2
Total debt assets		**605,180**	**6.3**	**570,414**	**5.6**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

17 Investment managers and mandates (cont)

		Market value at 31 March 2023	% of total 31 March 2023	Market value at 31 March 2024	% of total 31 March 2024
Manager	**Mandate**	**£000**	**%**	**£000**	**%**
In-house	Cash	448,096	4.6	290,027	2.8
In-house	Transitions	366	0.0	1,812	0.0
Total cash and sundries		**448,462**	**4.6**	**291,839**	**2.8**
Net financial assets		**9,640,988**	**100.0**	**10,190,419**	**100.0**

Over the last two years no single investment represented more than 5% of the net assets of the Fund.

18 Securities lending

During the year Lothian Pension Fund participated in a securities lending arrangement with the Northern Trust Company. As at 31 March 2024, £101.3m (2023 £92.5m) of securities were released to third parties. Collateral valued at 105.3% (2023 105.1%) of the market value of the securities on loan was held at that date.

19 Property holdings

	2022/23 restated	2023/24
	£000	**£000**
Opening balance	431,303	365,745
Additions	23,883	24,455
Disposals	(6,437)	(5,854)
Net change in market value	(83,004)	(20,732)
Closing balance	**365,745**	**363,614**

The value of the investment property as at 31 March 2023 has been restated, please see note 2 for details on the restatement.

As at 31 March 2024, there were no restrictions on the realisability of the property or the remittance of income or sale proceeds. As at 31 March 2024, the fund had no contractual obligation for any further construction costs.

The future minimum lease payments receivable by the fund are as follows:

	2022/23	2023/24
	£000	**£000**
Within one year	20,158	23,937
Between one and five years	67,636	70,254
Later than five years	106,764	98,776
	194,558	**192,967**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

20 Financial instruments

20a Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair value amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

All financial instruments are marked to market (at fair value) in the Fund accounting records, hence there's no difference between the carrying value and fair value.

Classification of financial instruments - parent	31 March 2023			31 March 2024		
	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost
Investment assets	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Bonds	1,441,616	-	-	1,700,485	-	-
Equities	5,469,139	-	-	5,610,224	-	-
Pooled investments	1,972,419	-	-	2,252,099	-	-
Property leases	-	-	-	-	-	-
Derivative contracts	2,549	-	-	509	-	-
Margin balances	-	-	-	-	-	-
Cash	-	341,424	-	-	279,426	-
Other balances	-	57,482	-	-	63,585	-
	8,885,723	**398,906**	**-**	**9,563,317**	**343,011**	**-**
Other assets						
City of Edinburgh Council	-	2,311	-	-	2,825	-
Cash	-	44,224	-	-	39,683	-
Share Capital	-	690	-	-	1,690	-
Debtors - current	-	21,221	-	-	22,465	-
Debtors - non-current	-	10,688	-	-	9,701	-
	-	**79,134**	**-**	**-**	**76,364**	**-**
Assets total	**8,885,723**	**478,040**	**-**	**9,563,317**	**419,375**	**-**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

Classification of financial instruments - parent (cont)	31 March 2023			31 March 2024		
	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost
Financial liabilities Investment liabilities	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Derivative contracts	-	-	-	-	-	-
Other investment balances	-	(9,386)	-	-	(79,523)	-
	-	**(9,386)**	**-**	**-**	**(79,523)**	**-**
Other liabilities						
Creditors	-	-	(25,395)	-	-	(24,693)
Liabilities total	**-**	**(9,386)**	**(25,395)**	**-**	**(79,523)**	**(24,693)**
Total net assets	**8,885,723**	**468,654**	**(25,395)**	**9,563,317**	**339,852**	**(24,693)**

	31 March 2023	31 March 2024
Total net financial instruments	**9,328,982**	**9,878,476**
Amounts not classified as financial instruments	366,231	364,348
Total net assets	**9,695,213**	**10,242,824**

ALISON MURRAY

"Having been appointed in September 2023 as Independent Professional Observer, my role is to provide guidance to the Pensions Committee and Pension Board with the aim of supporting and enhancing the scrutiny of the decision making within LPF's governance arrangements. With over twenty years of experience advising pension funds and employers within the LGPS throughout the UK, I am able to use my expertise to nurture and develop knowledge and understanding within the pensions industry. It is evident that LPF's members and employers remain the priority for all the funds decision making and I look forward to supporting the Pension Committee and Pension Board Members to continue to do so over the next few years."

Independent Professional Observer

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

20a Classification of financial instruments (cont)

Classification of financial instruments - adjustments to parent to arrive at group	31 March 2023			31 March 2024		
	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost
Other assets	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cash	-	1,479	-	-	3,079	
Share capital	-	(690)	-	-	(1,690)	
Debtors - current	-	772	-	-	517	
Debtors - non-current	-	-	-	-	-	
Debtors - non-current Retire. benefit obligation	-	4,866	-	-	-	
	-	**6,427**	**-**	**-**	**1,906**	
Assets total	**-**	**6,427**	**-**	**-**	**1,906**	
-Other liabilities-						
Retire. benefit obligation	-	-	-		-	
Creditors	-	(678)	-	-	(898)	
Creditors - non current	-	(331)	-	-	(12)	
Liabilities total	**-**	**(1,009)**	**-**	**-**	**(910)**	
Total net assets	**-**	**5,418**	**-**	**-**	**996**	**-**

	31 March 2023		31 March 2024
Total adjustments to net financial instruments	**5,418**	-	**996**
Total net assets	**9,700,631**		**10,243,820**

20b Net gains and losses on financial instruments

	2022/23	2023/24
	£000	**£000**
Designated as fair value through Fund Account	(131,599)	308,341
Loans and receivables	26,548	1,303
Financial liabilities at amortised cost	-	-
Total	**(105,051)**	**309,644**
Gains and losses on directly held freehold property	(89,871)	(20,732)
Change in market value of investments per fund account	**(194,922)**	**288,912**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

20c Fair value hierarchy

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1
Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, government bonds and unit trusts.

Quoted investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2
Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that isn't considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3
Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation isn't based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investments in unquoted private equity, infrastructure, timber and European real estate are based on valuations provided by the general partners to the funds in which the Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation (IPEV) Guidelines or similar guidelines provided by the British Venture Capital Association, which follow the valuation principles of International Financial Reporting Standards (IFRS). The valuations are typically undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

20c Fair value hierarchy (cont)

				31 March 2024
	Level 1	Level 2	Level 3	Total
Investment assets at fair value through Fund Account	**£000**	**£000**	**£000**	**£000**
Bonds	1,700,485	-	-	1,700,485
Equities	5,610,224	-	-	5,610,224
Pooled investment vehicles	20,059	221,401	2,010,639	2,252,099
Derivatives	509	-	-	509
Cash deposits	279,426	-	-	279,426
Investment income due	63,585	-	-	63,585
Non-financial assets at fair value through profit and loss				
Property	-	-	363,614	363,614
Total investment assets	**7,674,288**	**221,401**	**2,374,253**	**10,269,942**
Investment liabilities at fair value through Fund Account	**(79,523)**	**-**	**-**	**(79,523)**
Total investment liabilities	**(79,523)**	**-**	**-**	**(79,523)**
Net investment assets	**7,594,765**	**221,401**	**2,374,253**	**10,190,419**

				31 March 2023 Restated
	Level 1	Level 2	Level 3	Total
Investment assets at fair value through Fund Account	**£000**	**£000**	**£000**	**£000**
Bonds	1,441,616	-	-	1,441,616
Equities	5,469,139	-	-	5,469,139
Pooled investment vehicles	27,093	189,861	1,755,465	1,972,419
Derivatives	2,549	-	-	2,549
Cash deposits	341,424	-	-	341,424
Investment income due	57,482	-	-	57,482
Non-financial assets at fair value through profit and loss				
Property	-	-	365,745	365,745
Total investment assets	**7,339,303**	**189,861**	**2,121,210**	**9,650,374**
Investment liabilities at fair value through Fund Account	**(9,386)**	**-**	**-**	**(9,386)**
Total investment liabilities	**(9,386)**	**-**	**-**	**(9,386)**
Net investment assets	**7,329,917**	**189,861**	**2,121,210**	**9,640,988**

The fair value heirarchy of the fund within 2022/2023 has been restated, please see note 2 for details on the restatement.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

21 Nature and extent of risk arising from financial instruments

Risk and risk management

The fund’s primary aim is to ensure that all members and their dependants receive their benefits when they become payable. The main investment strategy aims to maximise the returns from investments within reasonable risk parameters and hence minimise the long-term cost to employers. It achieves this by investing in a diverse range of assets to reduce risk to an acceptable level. In addition, the fund ensures that sufficient cash is available to meet all liabilities when they're due to be paid.

Responsibility for the fund’s overall investment strategies rests with the Pensions Committee. The Joint Investment Forum and the internal investment team monitor investment risks on a regular basis. Investment risk management tools are used to identify and analyse risks faced by the fund’s investments.

Consideration of the Fund’s investment risk is part of the overall risk management of the pensions operations. Risks are reviewed regularly to reflect changes in activity and market conditions.

Types of investment risk

There are various ways of considering investment risks for pension funds. For the purposes of this note, market risk is the potential for an investor to experience losses from falls in the prices of investments. All financial instruments, including cash deposits, present a risk of loss of capital and risks vary depending on different asset classes.

Market risk also changes over time as economic conditions and investor sentiment change. The fund considers overall fluctuations in prices arising from a variety of sources: market risk, foreign exchange risk, interest rate risk, credit risk, etc. The different risks may, to some extent, offset each other.

The overall market risk of the fund depends on the actual mix of assets and encompasses all the different elements of risk.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

21 Nature and extent of risk arising from financial instruments (cont)

The fund manages these risks in a number of ways:

- Assessing and establishing acceptable levels of market risk when setting overall investment strategy. Importantly, risk is considered relative to the liabilities of the fund
- Diversification of investments in terms of type of asset, investment styles, investment managers, geographical and industry sectors as well as individual securities taking stewardship responsibilities seriously and pursuing constructive engagement with the companies in which we invest
- Monitoring market risk and market conditions to ensure risk remains within tolerable levels
- Using equity futures contracts from time to time to manage market risk. Options are not used by the fund.

Sensitivity analysis

Asset prices have a tendency to fluctuate. The degree of such fluctuation is known as "volatility" and it differs by asset class. The table sets out the long-term volatility assumptions used in the fund's asset-liability modelling undertaken by Isio investment advisers.

Volatility is the standard deviation of annual returns. Broadly speaking, in two years out of three, the asset's change in value (which could be a gain or a loss) is expected to be lower than the volatility figure, but in one year out of three, the change in value is expected to be higher than the volatility figure.

Asset type	Potential price movement (+ or -)
Equities - Developed Markets	20.5%
Equities - Emerging Markets	28.0%
Private equity	26.0%
Timber and gold	15.0%
Secured loans	10.5%
Fixed interest Gilts	11.4%
Index-linked Gilts	11.8%
Infrastructure	12.0%
Property	13.0%
Cash	1.6%

Asset classes do not always move in line with each other. The extent to which assets move together is known as their "correlation". A lower correlation means that there is less risk of assets losing value at the same time.

The overall fund benefits from "diversification" because it invests in different asset classes, which don't all move in line with each other. Consequently, the aggregate risk at the fund level is less than the total risk from all the individual assets in which the fund invests. The following table shows the risks at the asset class level and the overall fund level, with and without allowance for correlation.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

21 Nature and extent of risk arising from financial instruments (cont)

	Value at 31 March 2024	% of fund	Potential Change +/-	Value on increase	Value on decrease
	£m	%	%	£m	£m
Equities - Developed Markets	5,088	49.9	20.5%	6,131	4,045
Equities - Emerging Markets	528	5.2	28.0%	676	380
Private equity	78	0.8	26.0%	98	57
Timber and gold	114	1.1	15.0%	131	97
Secured loan	402	3.9	10.5%	444	359
Fixed interest Gilts	49	0.5	11.4%	54	43
Index-linked Gilts	1,536	15.1	11.8%	1,717	1,355
Infrastructure	1,544	15.2	12.0%	1,729	1,358
Property	469	4.6	13.0%	529	407
Cash and forward foreign exchange	383	3.7	1.6%	388	376
Total [1]	**10,190**	**100.0**	**16.8%**	**11,897**	**8,478**
Total [2]			**12.7%**	**11,484**	**8,891**
Total [3]			**13.6%**	**11,574**	**n/a**

[1] No allowance for correlations between assets
[2] Including allowance for correlations between assets
[3] Including allowance for correlation between assets and liabilities.

The value on increase/decrease columns illustrate the monetary effect of the percentage change in the volatility column. The actual annual change in value is expected to be lower than this in two years out of three, but higher in one year out of three.

It can be seen that the risk to the overall fund assets [2] is lower than the total of the risks to the individual assets.

However, because the purpose of a pension scheme is to make payments to scheme beneficiaries, the true risk of a pension scheme isn't measured in absolute terms, but relative to its liabilities [3].

This risk analysis incorporates volatility from market, interest rate, foreign exchange, credit, and all other sources of risk, and, importantly, makes allowance for how these risks may offset each other.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

21 Nature and extent of risk arising from financial instruments (cont)

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the value of the fund's assets and liabilities (as outlined in Market Risk above).

In essence, the fund's entire investment portfolio is exposed to some sort of credit risk. However, through the selection of counterparties, brokers and financial institutions, the fund reduces the credit risk that may occur through the failure to settle a transaction in a timely manner.

Cash deposits, derivatives and securities lending are the major areas of credit exposure where credit risk isn't reflected in market prices.

Cash deposits

At 31 March 2024, cash deposits represented £279m, 2.73% of total net assets. This was held with the following institutions:

	Moody's Credit Rating at 31 March 2024	Balances at 31 March 2023	Balances at 31 March 2024
Held for investment purposes		**£000**	**£000**
Northern Trust Global Investment Limited - liquidity funds	A2	9,673	13,096
Northern Trust Company - cash deposits	A2	54,715	65,557
UK Short-Term Bills and Notes	Aa3	130,016	92,668
The City of Edinburgh Council - treasury management	See below	139,838	98,769
JLL in-house property cash (Barclays)	A1	7,182	9,336
Total investment cash		**341,424**	**279,426**
Held for other purposes			
The City of Edinburgh Council - treasury management	See below	44,224	39,683
Total cash - parent		**385,648**	**319,109**
Cash held by LPFE/LPFI Limited			
Royal Bank of Scotland	A1	1,478	3,079
Total cash - group		**387,126**	**322,188**

The majority of Sterling cash deposits of the Fund are managed along with those of the administering authority (the City of Edinburgh Council) and other related organisations which are pooled for investment purposes as a treasury cash fund. Management of the cash fund is on a low risk basis, with security of the investments the key consideration.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

21 Nature and extent of risk arising from financial instruments (cont)

	Moody's Credit Rating at 31 March 2024	Balances at 31 March 2023	Balances at 31 March 2024
Money market funds		**£000**	**£000**
Deutsche Bank AG, London	Aaa-mf	25,862	19,247
Goldman Sachs	Aaa-mf	859	40
Aberdeen Standard Sterling Liquidity Fund	Aaa-mf	6,644	-
Bank call accounts			
Bank of Scotland	A1	13	16
Royal Bank of Scotland	A1	6,851	1,411
Santander UK	A1	24	31
Barclays Bank	A1	13	17
Svenska Handelsbanken	Aa2	8,467	60
HSBC Bank PLC	A1	8	10
Notice accounts			
HSBC Bank PLC	A1	4	6
UK Government			
Gilts & T-Bills and UK Government Debt	Aa3	27,636	18,421
UK Pseudo-Sovereign risk instruments			
Other Local Authorities [1]	Aa3	107,681	99,193
		184,062	**138,452**

[1] Very few Local Authorities have their own credit rating, but they're generally assumed to have a pseudo-sovereign credit rating (which in the UK at 31 March 2024 was 'Aa3').

The Council has in place institutional restrictions on investments and counterparty criteria. These include:

a) UK Government and other UK local Authorities with no limit, other public bodies up to £20 million per organisation
b) Money market funds (MMFs) no more than £30 million or 15% with any one Fund
c) Financial Institutions: Banks and Building Societies with multiple criteria based on a range of short and long term credit ratings, as well as any security, provided from maximum of £60 million / 20% of assets under management (AUM) for institutions with the highest criteria to £10 million / 5% of AUM for institutions with the lowest acceptable criteria.

No breaches of the Council's counterparty criteria occurred during the reporting period and the Fund doesn't expect any losses from non-performance by any of its counterparties in relation to deposits.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

Securities lending

The Fund participates in a securities lending programme as described above. The Fund is potentially exposed to credit risk in the event of the borrower of securities defaulting. This risk is mitigated by the contractual commitment that borrowers provide collateral in excess of 100% of the value of the securities borrowed. In addition, Northern Trust has signed an agreement requiring it to make good any losses arising from the lending programme.

Derivatives

The fund transacts foreign currency derivatives over-the-counter and hence is exposed to credit risk in the event of a counterparty defaulting on the net payment or receipt that remains outstanding. This risk is minimised by the use of counterparties that are recognised financial intermediaries with acceptable credit ratings and by netting agreements. At 31 March 2024, the fund was owed £509k on over-the-counter foreign currency derivatives.

Refinancing risk

Refinancing risk is the risk that the Fund will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The Fund isn't bound by any obligation to replenish its investments so isn't exposed to refinancing risk.

Liquidity risk

Liquidity risk reflects the risk that the Fund won't be able to meet its financial obligations as they fall due. The Fund therefore ensures that there's adequate cash and liquid resources to meet its commitments. Cash flow projections are prepared on a regular basis to understand and manage the timing of the Fund’s cash flows.

The majority (estimated to be approximately 77% (2023 78%)) of the fund’s investments could be converted to cash within three months in a normal trading environment.

22 Actuarial statement

The Scheme Actuary has provided a statement describing the funding arrangements of the Fund. This can be found at the end of this section.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

23 Actuarial present value of promised retirement benefits

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £7,613m (2023 £6,971m). This figure is used for statutory accounting purposes by Lothian Pension Fund and complies with the requirements of IAS26. The assumptions underlying the figure match those adopted for the Administering Authority's FRS102/IAS19 reports at each year end.

The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it's not relevant for calculations undertaken for funding purposes and setting contributions payable to the fund.

	31 March 2023	31 March 2024
	% p.a.	% p.a.
Inflation / pensions increase rate	3.0	2.8
Salary increase rate	3.5	3.5
Discount rate	4.8	4.8

Longevity assumptions

Life expectancy is based on the fund's VitaCurves with improvements in line with the CMI 2022 model, with a 25% weighting of 2022 data, 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of improvement of 1.5% per annum. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	31 March 2023		31 March 2024	
	Male	Female	Male	Female
Current pensioners	19.9 years	22.9 years	20.3 years	23.1 years
Future pensioners (assumed to be currently 45)	21.2 years	24.7 years	21.1 years	24.8 years

Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

24 Non-current debtors	LPF Parent 31 March 2023	LPF Group 31 March 2023	LPF Parent 31 March 2024	LPF Group 31 March 2024
	£000	£000	£000	£000
Contributions due - employers' cessation	10,688	10,688	9,701	9,701
	10,688	10,688	9,701	9,701

In accordance with the Funding Strategy Statement and in recognition of severe affordability constraints facing the charitable sector, "Funding Agreements" have been put in place to allow certain former employers to repay cessation valuation debt over longer terms (up to twenty years), to avoid potential default or insolvency.

The above debtors all relate to community admission bodies.

25 Debtors	LPF Parent 31 March 2023	LPF Group 31 March 2023	LPF Parent 31 March 2024	LPF Group 31 March 2024
	£000	£000	£000	£000
Contributions due - employers	16,211	16,211	16,863	16,863
Contributions due - members	4,407	4,407	4,755	4,755
Benefits paid in advance or recoverable	-	-	-	-
Sundry debtors	248	1,003	217	1,081
Prepayments	253	270	248	283
LPFE & LPFI Limited Loan facility - see note 27	102	-	382	-
	21,221	21,891	22,465	22,982

26 Creditors	LPF Parent 31 March 2023	LPF Group 31 March 2023	LPF Parent 31 March 2024	LPF Group 31 March 2024
	£000	£000	£000	£000
Benefits payable	10,498	10,498	9,487	9,487
VAT, PAYE and State Scheme premiums	906	1,575	651	1,853
Contributions in advance	11,819	11,819	11,870	11,870
Miscellaneous creditors and accrued expenses	1,850	2,014	1,496	2,029
Office - operating lease	129	129	216	216
Corporation tax losses utilised from CEC group	-	38	-	24
Intra group creditor - see note 28	193	-	861	-
	25,395	26,073	24,581	25,479

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

27 Additional voluntary contributions

Active members of the Lothian Pension Fund have the option to pay additional voluntary contributions (AVCs). These AVCs are invested separately from the main funds, securing additional benefits on a money purchase basis for those members that have elected to contribute. The investment of the AVCs is managed by Standard Life and Prudential.

In accordance with regulation 4 (2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, AVCs aren't included in the pension fund financial statements.

	2022/23	2023/24
Total contributions during year for Lothian Pension fund	**£000**	**£000**
Standard Life	254	220
Prudential	2,544	4,537
	2,798	**4,757**

	31 March 2023	31 March 2024
Total value at year end for Lothian Pension Fund	**£000**	**£000**
Standard Life	3,997	3,853
Prudential	10,383	14,092
	14,380	**17,945**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

28 Related parties

The City of Edinburgh Council

The Lothian Pension Fund and the Scottish Homes Pension Fund are administered by the City of Edinburgh Council. Consequently, there's a strong relationship between the Council and the pension funds.

LPFE, which is a wholly owned subsidiary of the Council, is responsible for providing the staffing resource to administer the pension funds. The Fund has a service level agreement in place with the Council for certain support services. Costs directly attributable to a specific Fund are charged to the relevant Fund, costs that are common to the two Funds are allocated on a defined basis.

Transactions between the Council and the Fund are managed via a holding account. Each month the Fund is paid a cash sum leaving a working balance in the account to cover the month's pension payroll costs and other expected costs.

	31 March 2023	31 March 2024
	£000	£000
Year-end balance of holding account	2,311	2,825
	2,311	**2,825**

Part of the fund's cash holdings are invested on the money markets by the treasury management operations of the Council, through a service level agreement. During the year to 31 March 2024, the fund had an average investment balance of £141.3m (2022/23 £197.9m). Interest earned was £7,102k (2022/23 £3,857k).

Year-end balance on treasury management account

	31 March 2023	31 March 2024
	£000	£000
Held for investment purposes	139,838	65,017
Held for other purposes	44,224	39,683
	184,062	**104,700**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

28 Related parties (cont)

Scheme employers

All scheme employers to the fund are (by definition) related parties, a full list of employers can be found on page 121. The employer contributions for the ten largest scheme employers are as follows:

	31 March 2023	31 March 2024
	£000	£000
City of Edinburgh Council	75,947	83,866
West Lothian Council	32,549	35,025
East Lothian Council	20,607	22,664
Midlothian Council	18,027	19,294
Scottish Water	11,419	12,685
Scottish Police Authority	7,010	7,761
Edinburgh Napier University	6,650	7,421
Heriot-Watt University	3,720	4,256
Audit Scotland	2,886	3,176
Edinburgh College	2,877	2,748

Governance

As at 31 March 2024, all members of the Pensions Committee and the Pension Board were members of the Lothian Pension Fund, with the exception of Richard Lamont and Tony Beecher. One member of both the Pensions Committee and the Pension Board is in receipt of pension benefits from Lothian Pension Fund.

Each member of the Pensions Committee and Pension Board is required to declare any financial and non-financial interests they have in the items of business for consideration at each meeting, identifying the relevant agenda item and the nature of their interest.

During the period from 1 April 2023 to the date of issuing of these accounts, a number of employees of the City of Edinburgh Council and its wholly owned subsidiary, LPFE Limited, held key positions in the financial management of the Lothian Pension Fund. Total compensation paid in relation to key management personnel employed by LPFE Limited during the period was as follows:

	31 March 2023	31 March 2024
	£000	£000
Short-term employee benefits	1,281	1,652
Post-employment benefits - employer pension contributions	119	120

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

28 Related parties (cont)

Key management personnel employed by LPFE had accrued pensions totalling £51,302 (1 April 2023: £148,034) and lump sums totalling £36,059 (1 April 2023: £147,429) at the end of the period. Further details on senior management remuneration can be found within the remuneration report on page 181.

Remuneration of key management personnel employed by City of Edinburgh Council is disclosed separately in the Financial Statements of City of Edinburgh Council.

The Councillors, who are members of the Pensions Committee, are also remunerated by City of Edinburgh Council.

LPFE Limited & LPFI Limited – loan facility

LPFE & LPFI Limited are wholly owned by the City of Edinburgh Council as administrating authority of Lothian Pension Fund and have entered into a shareholder agreement with the Council to address governance matters. The companies have a loan facility agreement with the City of Edinburgh Council for the purpose of the provision of short-term working capital. The agreement provides that interest is payable at 2% above the Royal Bank of Scotland base lending rate on the daily balance. To minimise the amount of interest payable, the companies return any cash not immediately required and this can result in short periods when the companies have returned more cash than has been drawn. On such days the loan interest is negative, reducing the amount of interest payable.

Interest payable by LPFE Limited during the period was £4,861 of which £1,115 was due at the year end and for LPFI Limited their interest payable for the year was £4,883 of which £318 was due at the year end. At 31 March 2024, there was a £380,489.39 balance on the loan facilities for LPFE Limited and a zero balance on the loan facilities for LPFI Limited.

LPFE Limited - staffing services

Staffing services are provided to Lothian Pension Fund for the purposes of administering the funds under a intra-group resourcing agreement. The agreement also provides for the running costs of the company to be covered as part of a service charge and allows for the provision of staffing services to LPFI Limited. During the year to 31 March 2024 the fund was invoiced £7,198k (2023 £6,076k) for the services of LPFE Limited staff.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

29a Consolidated Lothian Pension Fund Group - LPFE Limited & LPFI Limited - deferred tax

Movement in deferred tax asset (Non-current asset)

	LPF Group 2022/23	LPF Group 2023/24
	£000	£000
Opening balance	875	(213)
Credit for year to Fund Account	(1,088)	213
Closing balance	**(213)**	**-**

Elements of closing deferred tax asset

	LPF Group 31 March 2023	LPF Group 31 March 2024
	£000	£000
Pension liability	(213)	-
	(213)	**-**

29b Shares in group companies - LPFE Limited & LPFI Limited

	31 March 2023	31 March 2024
	£	£
Allotted, called up and fully paid Ordinary shares of £1 each - LPFE Limited*	1	1
Allotted, called up and fully paid Ordinary shares of £1 each - LPFI Limited	690,378	1,690,378
	690,379	**1,690,379**

**One ordinary share of £1 was issued to Lothian Pension Fund at par value on incorporation. Due to the low value this does not show on the Net Assets Statement.*

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

30 Retirement benefits obligation - Group

The retirement benefit obligation described in this note relates only to the employees of LPFE. This is because obligation in respect of the staff employed by the City of Edinburgh Council is accounted for in the Financial Statements of the Council.

On 1 May 2015, LPFE commenced trading and its staff transferred their employment from the City of Edinburgh Council to the Company on that date. At that time, the Company also entered into appropriate admission arrangements with the City of Edinburgh Council with respect to the transferring individuals continuing to be members of the Lothian Pension Fund and in relation to its obligations as an employer in that Fund.

The present value of the defined benefit obligation and related current and past service cost were measured using the Projected Unit Credit Method.

Fund assets

LPFE's share of the fair value of the Fund's assets which are not intended to be realised in the short term and may be subject to significant change before they are realised, was comprised as follows:

		Fair value at 31 March 2023	% of total 31 March 2023	Fair value at 31 March 2024	% of total 31 March 2024
Asset		**£000**	**%**	**£000**	**%**
Equity securities:	Consumer	2,195	12.0	2,403	12.0
	Manufacturing	2,468	14.0	2,795	14.0
	Energy and utilities	1,080	6.0	1,106	5.0
	Financial institutions	1,077	6.0	1,198	6.0
	Health and care	1,315	7.0	1,315	6.0
	Information technology	744	4.0	1,009	5.0
	Other	1,223	7.0	1,248	6.0
Debt securities:	Corporate Bonds	279	2.0	328	2.0
	UK Government	2,076	12.0	2,736	13.0
	Other	374	2.0	352	2.0
Private equity:	All	70	0.0	187	1.0
Real property:	UK property	806	5.0	1,040	5.0
	Overseas property	29	0.0	69	0.0
Investment funds and unit trusts:	Equities	252	1.0	-	0.0
	Bonds	518	3.0	518	3.0
	Commodities	-	-	225	1.0
	Infrastructure	2,552	14.0	3,068	15.0
Derivatives:	Foreign Exchange	1	0.0	(3)	0.0
Cash and cash equivalents	All	845	5.0	756	4.0
		17,904	**100.0**	**20,350**	**100.0**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

30 Retirement benefits obligation - group (cont)

Amounts recognised in the Net Assets Statement

	LPF Group 31 March 2023	LPF Group 31 March 2024
	£000	£000
Fair value of fund assets	17,904	20,350
Present value of fund liabilities	(13,038)	(15,588)
Asset Ceiling Adjustment for economic benefit calculation result	-	(4,762)
	4,866	**-**

Movement in the defined benefit obligation during the period

	LPF Group 2022/23	LPF Group 2023/24
	£000	£000
Brought forward	19,883	13,038
Current service cost	1,930	918
Past service cost	-	-
Interest cost on obligation	576	646
Fund participants contributions	343	386
Benefits paid	(124)	(241)
Actuarial losses arising from changes in financial assumptions	(10,309)	(1,134)
Actuarial losses arising from changes in demographic assumptions	(119)	(405)
Other actuarial gains/(losses)	858	2,380
Balance at year end	**13,038**	**15,588**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

30 Retirement benefits obligation - group (cont)

Movement in the fair value of fund assets during the period

	LPF Group 2022/23	LPF Group 2023/24
	£000	£000
Brought forward	16,385	17,904
Benefits paid	(124)	(241)
Interest income on fund assets	464	877
Contributions by employer	814	917
Contributions by member	343	386
Other gains / (losses)	-	(348)
Return on assets excluding amounts included in net interest	22	855
Balance at year end	**17,904**	**20,350**

Amounts recognised in the Fund Account

	LPF Group 2022/23	LPF Group 2023/24
	£000	£000
Interest received on fund assets	(464)	(877)
Interest cost on fund liabilities	576	646
Current service costs	1,930	918
Past service costs	-	-
Employer contributions	(814)	(917)
Actuarial gain/(loss) due to re-measurement of defined benefit obligation	(9,570)	841
Return on fund assets (excluding interest above)	(22)	(855)
Net cost recognised in Fund Account	**(8,364)**	**(244)**

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

30 Retirement benefits obligation - group (cont)

Principal actuarial assumptions used in this valuation	**31 March 2023**	**31 March 2024**
	% p.a.	**% p.a.**
Inflation / pensions increase rate	3.0	2.8
Salary increase rate	3.5	3.5
Discount rate	**4.8**	**4.9**

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice. Best estimate has been interpreted to mean that the proposed assumptions are 'neutral' – there's an equal chance of actual experience being better or worse than the assumptions proposed.

The financial assumptions used for reporting in the financial statements are the responsibility of the employer. These assumptions are largely prescribed at any point and reflect market conditions at the reporting date. Changes in market conditions that result in changes in the net discount rate can have a significant effect on the value of the liabilities reported.

A reduction in the net discount rate will increase the assessed value of liabilities as a higher value is placed on benefits paid in the future. A rise in the net discount rate will have an opposite effect of a similar magnitude. There's also uncertainty around life expectancy of the UK population – the value of current and future pension benefits will depend on how long they are assumed to be in payment.

Life expectancy is based on the fund's VitaCurves with improvements in line with the CMI 2022 model, with a 25% weighting of 2022, a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long-term rate of improvement of 1.5% p.a.

Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	31 March 2023		**31 March 2024**	
	Male	**Female**	**Male**	**Female**
Current pensioners	19.9 years	22.9 years	19.3 years	22.1 years
Future pensioners	21.2 years	24.7 years	23.4 years	25.1 years

Expected employer contributions to the defined benefit plan for the year ended 31 March 2025 are £918k, based on a pensionable payroll cost of £5,073k.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

31 Contractual commitments

Investment commitments

The Fund has commitments relating to outstanding call payments due on unquoted funds held in the private equity, timber, property and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing, taking place over a number of years from the date of each original commitment. The outstanding commitments at the year end are as follows:

	31 March 2023	31 March 2024
	£000	£000
Outstanding investment commitment	294,486	238,371
	294,486	238,371

Office accommodation - 9 Haymarket Square, Edinburgh

The fund is committed to making the following future payments.

	31 March 2023	31 March 2024
	£000	£000
Within one year	-	28
Between one and five years	-	1,259
After five years	-	2,102
	-	3,389
Recognised as an expense during the year	-	114

Office accommodation - 144 Morrison Street, Edinburgh

The fund is committed to making the following future payments.

	31 March 2023	31 March 2024
	£000	£000
Within one year	118	135
Between one and five years	355	405
After five years	193	85
	666	625
Recognised as an expense during the year	95	95

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

The lease for office accommodation at 144 Morrison Street has been identified as onerous with the opening of new office accommodation at 9 Haymarket Square. A sub-lease for 144 Morrison Street has not yet been agreed however it is estimated that a tenant will be agreed within one year of vacating the property. A separate onerous lease provision is therefore shown in the Net Assets Statement for a single year payment of rent for this accommodation.

32 Contingent assets and liabilities

Contribution refunds

At 31st March 2024, Lothian Pension Fund had £1,922k (2023: £1,878k) in unclaimed refunds due to members.

Co-investment deal abort costs

At 31 March 2024 the Fund had entered into negotiations for a private debt investment which it is exposed to the potential risk of investment abort costs. Lothian Pension Fund's exposure to this is approximately £2k.

Employer cessations

As stated in note 24, “In accordance with the Funding Strategy Statement and in recognition of severe affordability constraints facing the charitable sector, “Funding Agreements” have been put in place with certain former employers to repay cessation valuation debt”. In exceptional circumstances, this includes “repayment of less than the cessation debt in order to avoid employer insolvency, with an appropriate agreement which allows the fund to revisit the repayment of the remaining debt at a future date (i.e. the debt would be a contingent liability and hence not recognised on an employer’s balance sheet); and seeking, where appropriate, suitable “anti-embarrassment” provisions in legal agreement covering future increase in employer asset values”. At 31 March 2024, such contingent assets of the fund totalled £3,622k and the fund has secured first ranking security over two employer property assets and second ranking security over a further two employer property assets.

EU Tax claims & income recovery

The fund participates in various claims to recover withheld investment income. EU tax claims relate to the recovery of tax deducted from dividend payments prior to receipt or payable tax credits thereon. The fund's remaining claims relate to “Fokus Bank”. Given the high level of uncertainty as to the eventual success of such claims from EU tax authorities, no accrual of income is made in the financial statements. The value of these outstanding claims is approximately £4.6m. To date, the amount of tax recovered exceeds the cost of pursuing claims. Legal costs are shared across a pool of claimants and the fund has the right to cease participation without incurring further costs. An annual progress report is provided to Pensions Audit Sub-Committee.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

32 Contingent assets and liabilities (cont)

Variable pay arrangements

In 2018/19 the company introduced three variable pay schemes, two of which have vesting periods. The Portfolio Manager and Senior Management schemes entitle staff to receive an assessed percentage of their salary as an additional variable pay award if they meet certain objectives during the year. The assessment year runs from 1 January to 31 December with the award then vesting over three years for Portfolio Managers and two years for Senior Management. The first part is payable at the end of the first year if the objectives are met and the remaining parts are payable in the following years if the requirement that the employee is still employed by the company at such time is met. Payment one for the 2023/24 year, payment two for the 2022/23 year and payment three for the 2021/22 year were made in March 2024. A liability has been raised at 31 March 2024 for the two months of service for the second and third instalment of 2023/24 and third instalment of 2022/23 which the employees have delivered with regards to the second and third payments in the scheme.

In the event that all the staff involved in the arrangements at 31 December 2023 remain in the company's employment there's a contingent liability of £461,124 in excess of the current and non-current liabilities, as recognised in these financial statements in accordance with IAS19. This amount would be payable over two years.

Rectification of age discrimination - McCloud and Sargeant judgements

When public service pension schemes were reformed following the Public Service Pensions Act 2013, protections for older scheme members were introduced. In December 2018, the Court of Appeal ruled that the transitional protections included in the Judges' ("McCloud") and Firefighters' ("Sargeant") pension schemes constituted unlawful age discrimination. Following this, in July 2019 a Written Ministerial Statement confirmed that the UK Government believed that the ruling applied to all the main public service pension schemes and that the discrimination would be addressed in all the relevant schemes, including Local Government Pension Scheme (LGPS) in Scotland.

Regulations to apply the remedy came into force on 1 October 2023. As expected, a comparison is to be made between the benefits payable under the current rules with the entitlements which would have been paid if the Scheme had not changed in 2015, and with any higher sum being paid to the member (the 'guarantee amount'). This protection applies automatically and members who meet the qualifying criteria don't need to take any action. Many members benefits won't change or will only see a small increase. As expected, implementation of the remedy has been complex and guidance is still being issued for transfer calculations and payment of interest to pensioners. We have delivered on key milestones by collecting and validating data from scheme employers and running bulk calculations to prepare our member records. Next steps will be switching on McCloud calculations so that guarantee amount checks are built into day to day calculations and once further guidance has been received regarding calculation of interest for affected pensioners, we'll be able to recalculate their benefits.

The fund's IAS26 reporting from its Actuary, as disclosed in Note 22, takes into account the appeal decision and the proposed remedy.

LOTHIAN PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

Contingent Value Right (CVR)

Following the take-over and delisting of one of the Fund's holdings in Abiomed by Johnson & Johnson in 2022 the Fund received a cash payment and one CVR with the entitlement of up to $35 per share if certain commercial and clinical milestones are achieved in the future. The CVR is unlisted and non-tradeable.

The CVR is held at a valuation of zero within the portfolio and the fund would receive £166.7k if the milestones are achieved.

33 Impairment losses

	2022/23	2023/24
	£000	£000
Bad Debt provision	361	-

During 2022/23 the fund recognised impairment losses in respect of cessation contributions for a specific employer (Freespace). An exit debt of £390,000 was identified by the actuary and following discussions with Freespace an initial payment of £75,000 was received. Freespace subsequently entered into administration and the Fund received a settlement o f £135,449.72 in 2023/24. The remaining debt now forms part of the guarantor's (The City of Edinburgh Council) liabilities and has been removed from the Fund's impairment losses.

LOTHIAN PENSION FUND ("THE FUND") ACTUARIAL STATEMENT FOR 2023/24

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2018. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of funding policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2024. In summary, the key funding principles are as follows:

- To ensure the long-term solvency of the overall Fund
- To ensure the solvency of each individual employers' share of the Fund based on their expected term of participation in the Fund
- To minimise the degree of short-term change in employer contribution rates
- Maximise the returns from investments within reasonable and considered risk parameters, and hence minimise the cost to the employer
- To ensure that sufficient cash is available to meet all liabilities as they fall due for payment
- To help employers manage their pension liabilities
- Where practical and cost effective, to make allowance for the different characteristics of different employers and groups of employers.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to have a sufficiently high likelihood of achieving the funding target over 20 years. Asset-liability modelling has been carried out which demonstrates that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is at least a 75% chance that the Fund will be fully funded over 20 years.

Funding position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 was as at 31 March 2023. This valuation revealed that the Fund's assets, which at 31 March 2023 were valued at £9,695 million, were sufficient to meet 157% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2023 valuation was £3,525 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2024 to 31 March 2027 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal actuarial assumptions and method used to value the liabilities

Full details of the methods and assumptions used are described in the 2023 valuation report.

LOTHIAN PENSION FUND ("THE FUND") ACTUARIAL STATEMENT FOR 2023/24

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth and inflation to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted under the Primary investment strategy for the 2023 valuation were as follows:

	31 March 2023
Financial assumptions	**% p.a.**
Discount rate	5.2%
Salary increase assumption	3.0%
Benefit increase assumption (CPI)	2.3%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2022 model, with a 25% weighting of 2022 data, a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Male	Female
Current Pensioners	20.3 years	23.1 years
Future Pensioners *	21.1 years	24.8 years

**Currently aged 45*

Copies of the 2023 valuation report and Funding Strategy Statement are available on the Fund's website.

Experience over the period since 31 March 2023

Markets reflected wider volatility during 2023, impacting on investment returns achieved by the Fund's assets. Continued high levels of inflation in the UK also resulted in a higher than expected LGPS benefit increase of 6.7% in April 2024. However, asset performance improved towards the end of 2023 and into 2024 and inflation has begun to return towards historical levels and the Bank of England's target (2% pa). Overall, the funding level of the Fund is likely to be slightly higher than reported at the previous formal valuation at 31 March 2023.

The next actuarial valuation will be carried out as at 31 March 2026. The Funding Strategy Statement will also be reviewed at that time.

Richard Warden FFA
For and on behalf of Hymans Robertson LLP
8 May 2024

LOTHIAN PENSION FUND
LIST OF ACTIVE EMPLOYERS AT 31 MARCH 2024

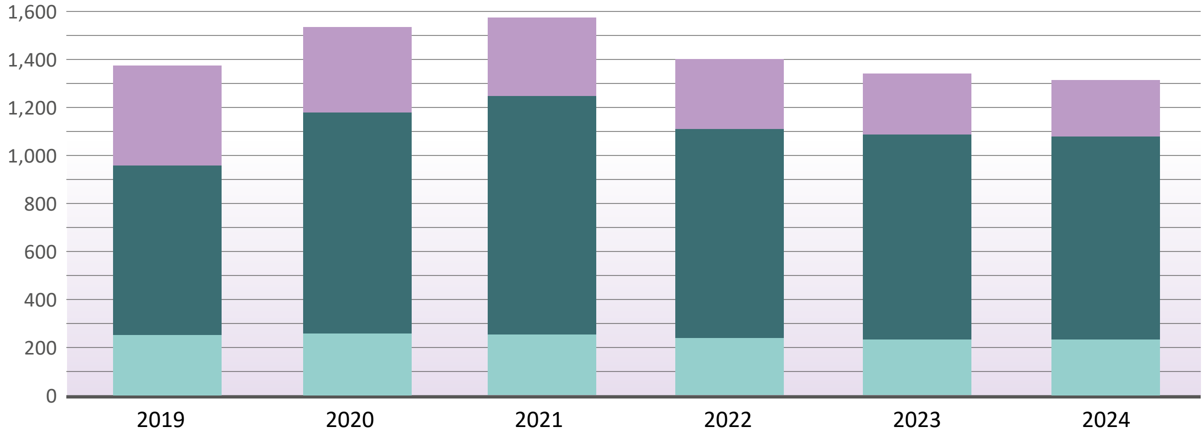
Scheduled Bodies	
City of Edinburgh Council (The)	Scottish Fire and Rescue Service
East Lothian Council	Scottish Police Authority
Edinburgh College	Scottish Water
Heriot-Watt University	SESTRAN
Lothian Valuation Joint Board	VisitScotland
Midlothian Council	West Lothian College
Scotland's Rural College (SRUC)	West Lothian Council

LOTHIAN PENSION FUND
LIST OF ACTIVE EMPLOYERS AT 31 MARCH 2024

Admitted Bodies	
Audit Scotland	Heriot Watt University Students Association
Baxter Storey	Homes for Life Housing Partnership
BEAR Scotland	Improvement Service (The)
Bellrock Property and Facilities Management	Lothian Buses
Canongate Youth Project	LPFE Limited
Capital City Partnership	Melville Housing Association
CGI UK Ltd	Mitie PFI
Children's Hearing Scotland	Museums Galleries Scotland
Children's Hospice Association Scotland	Newbattle Abbey College
Citadel Youth Centre	North Edinburgh Dementia Care
Compass Chartwell	NSL Services Ltd
Convention of Scottish Local Authorities	Pilton Equalities Project
Dacoll Limited	Queen Margaret University
Edinburgh Development Group	Royal Edinburgh Military Tattoo
Edinburgh Leisure	Royal Society of Edinburgh
Edinburgh Napier University	Scottish Adoption Agency
ELCAP	Scottish Futures Trust
Enjoy East Lothian	Scottish Schools Education Research Centre (SSERC)
Family Advice and Information Resource	Skanska UK
First Step	Sodexo Ltd
Forth and Oban Ltd	St Andrew's Children's Society Limited
Handicabs (Lothian) Ltd	University of Edinburgh (Edinburgh College of Art)
Health in Mind	West Lothian Leisure

SCOTTISH HOMES PENSION FUND INVESTMENT STRATEGY

SCOTTISH HOMES PENSION FUND MEMBERSHIP DATA



	2019	2020	2021	2022	2023	2024
Active	-	-	-	-	-	-
Deferred	404	360	320	295	262	236
Pensioner	906	911	898	870	861	846
Dependant	263	262	252	238	228	220

Investment strategy

The fund's last triennial actuarial valuation was dated 31 March 2023, at which point the actuary estimated Scottish Homes Pension Fund’s funding level to be 127.3%. The fund continues to have achieved its full funding objective ahead of the timeline originally agreed by the Scottish Government and the City of Edinburgh Council.

As the fund is closed to new entrants and relatively mature, its objective is to minimise investment shortfall risk of assets relative to liabilities, in line with Scottish Government guidance. The Pensions Committee reaffirmed the following investment objective in June 2021: "To match the cash flow from gilt income and redemption payments as closely as possible with the expected liability payments of the fund."

There was no change to the fund’s strategic allocation of 100% to bonds in the year to 31 March 2024, and the fund invests solely in cash and bonds, specifically UK gilts, which move proportionately with liability values.

To ensure that invested assets are as closely matched with the liability profile as possible, the investment manager takes into consideration the expected duration of liabilities and whether they’re fixed or inflation-linked in nature. The fund’s strategy is to match the cash flows of liabilities one year beyond the date of the next valuation and to match the duration of liabilities beyond that. This is because of the greater visibility of pension payments in the near term. The higher allocation to cash is due to the fully funded status of the fund. As bonds redeem, the cash is reinvested in short-dated bonds, so that this has no impact on the duration matching with the liabilities.

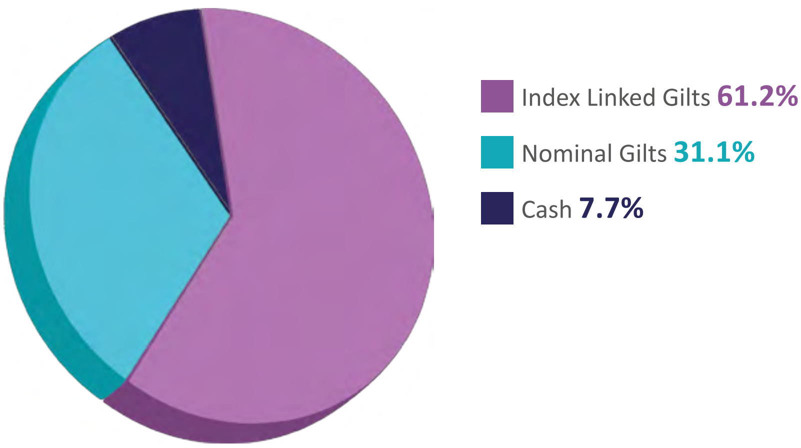
SCOTTISH HOMES PENSION FUND INVESTMENT STRATEGY

Over the longer term, funding levels are subject to the actuary's financial and demographic assumptions of future experience, which are re-examined every three years. At the last formal actuarial valuation at end March 2023, Hymans Robertson, the fund's actuary, reported a funding level of 127.3%.

With the March 2023 valuation results now reviewed, the portfolio holdings will be rebalanced as required to ensure that they continue to cash flow and duration match the expected liabilities.

The actual asset allocation of the fund is shown in the pie chart below:

ACTUAL ASSET ALLOCATION 31 MARCH 2024



Investment movements

As the Scottish Homes Pension Fund is relatively mature, it uses the proceeds of gilt coupons and redemptions to pay pensions. Cash or cash equivalents are held to enable pensions to be paid between the dates when gilts redeem. Being fully funded, the fund typically invests excess cash in short-dated bills and gilts. The cash balance at end March 2024 was equivalent to slightly more than fifteen months' pension payments.

The fund's assets have declined over the year, from £124.6 to £117.6m this correlates with the £7.2m divested to pay pensions over the year.

As gilts are generally held to maturity and matched with liability payments, short term fluctuations in asset values don't impact the overall strategy. Liability values rise and fall, as they did this year, with asset values.

SCOTTISH HOMES PENSION FUND ACCOUNT FOR YEAR ENDED 31 MARCH 2024

Financial statements

This statement shows a summary of the income and expenditure that the pension fund has generated and consumed in delivering the Local Government Pension Scheme. Included is the income from investment dealings and as well as the cost of providing benefits and administration of the fund.

2022/23			2023/24
£000		Note	£000
-	**Income**		-
-	Contributions from the Scottish Government	3	-
-	Transfers from other schemes		-
	Less: expenditure		
6,258	Pension payments including increases		6,502
769	Lump sum retirement payments		329
14	Lump sum death benefits		20
17	Transfers to other schemes		-
(35)	Administrative expenses	4b	(26)
7,023			**6,825**
(7,023)	**Net withdrawals from dealing with members**		**(6,825)**
	Returns on investments		
1,981	Investment income	5	1,991
(22,640)	Change in market value of investments	6, 9b	(1,662)
(88)	Investment management expenses	4c	(88)
(20,747)	**Net returns on investments**		**241**
(27,770)	**Net increase/(decrease) in the fund during the year**		**(6,584)**
154,214	Net assets of the fund at 1 April 2022		126,444
126,444	**Net assets of the fund at 31 March 2023**	**9**	**119,860**

SCOTTISH HOMES PENSION FUND
NET ASSETS STATEMENT AS AT 31 MARCH 2024

This statement provides a breakdown of type and value of all net assets at the year-end.

31 March 2023			31 March 2024
£000		Note	£000
	Investment Assets		
104,882	Bonds - UK		108,016
19,273	Cash Deposits		9,136
447	Other investment assets		490
124,602		**9c**	**117,642**
	Investment Liabilities		
-	Other investment liabilities		-
-			-
124,602	**Net investment assets**	**7**	**117,642**
	Current assets		
265	The City of Edinburgh Council	15	311
1,597	Cash balances	10,15	1,927
7	Debtors	13	5
1,869			**2,243**
	Current liabilities		
(27)	Creditors	14	(25)
(27)			**(25)**
1,842	**Net current assets**		**2,218**
126,444	**Net assets of the Fund**	**9**	**119,860**

The unaudited accounts were issued on 26 June 2024 and the audited accounts were authorised for issue on 25 September 2024.

Alan Sievewright
Chief Finance Officer,
Lothian Pension Fund
25 September 2024

Note to the net asset statement
The financial statements summarise the transactions of the fund during the year and its net assets at the year end. They don't take account of the obligations to pay pensions and benefits which fall due after the end of the year. The actuarial position of the Fund, which does take account of such obligations, is discussed in the Actuarial Valuation section of this report and these financial statements should be read in conjunction with that information. In addition, as required by IAS26, the Actuarial Present Value of Promised Retirement Benefits is disclosed in the notes to these financial statements.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

1 Statement of accounting policies

The statement of accounting policies for all funds can be found on page 149.

2 Events after the reporting date

There have been no events since 31 March 2024, and up to the date when these Financial Statements were authorised, that require any adjustments to these Financial Statements.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

3 Contributions from the Scottish Government

The Scottish Homes Pension Fund (SHPF) is an employer pension fund for former employees of Scottish Homes (subsequently Communities Scotland), Scottish Special Housing Association and Homeless Action Scotland (HAS) (formerly The Scottish Council for Single Homeless).

The City of Edinburgh Council was selected by the Scottish Executive to be the administering authority of a fund created prior to the wind up of the Scottish Homes Residuary Body and therefore became the administering authority of SHPF on 1 July 2005, pursuant to section 2(a)(1A) of The Local Government Pension Scheme (Scotland) Amendment (No. 2) Regulations 2005 (SSI 315/2005) (the 2005 Regulations). Former employees of HAS were transferred to SHPF on 12 July 2018 following receipt of Scottish Ministers approval on 31 March 2020.

SHPF is a mature, non-active fund that is, the fund has no contributions paid into it by active members but consists only deferred and pensioner members and therefore only pays money out to the pensioners.

Section 2 (1C) of the 2005 Regulations stipulates that:

"Where the actuary determines, after having regard to the existing and prospective liabilities of the fund, that additional funding is necessary to maintain the solvency of the fund (SHPF), then Scottish Ministers will make payments to the administering authority to maintain that solvency."

In this way, the Scottish Government acts as the ‘Guarantor’ for SHPF’s liabilities, as confirmed in the Funding Agreement, signed on behalf of the Scottish Executive and dated 6 July 2005.

As at the latest triennial actuarial valuation date of 31 March 2023, SHPF showed a funding surplus of £27.0 million with a funding level of 127%, derived from a market valuation of assets of £126.0 million and liabilities of £99.0 million.

In accordance with the provisions of the Funding Agreement, the assets of SHPF are now invested entirely on a low risk basis. With a funding surplus, the Scottish Government isn't required to provide any contribution, but as Guarantor has the responsibility to pay towards the administration expenses of the fund. This amounted to £90,000 per annum for years 31 March 2021 to 31 March 2024. Investment expenses are being met directly from the fund’s surplus.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

4a Total management expenses

	2022/23	2023/24
	£000	£000
Administrative costs	(48)	(45)
Investment management expenses	47	40
Oversight and governance costs	54	67
	53	**62**

This analysis of costs for the Scottish Homes Pension Fund has been prepared in accordance with CIPFA guidance. The analysis looks at the combined administration and investment management expenses in note 4b and c and splits out the costs to include a third heading covering oversight and governance expenditure.

4b Administrative expenses

	2022/23	2023/24
	£000	£000
Employee costs	29	33
System costs	12	13
Actuarial fees	3	10
External audit fees	1	1
Printing and postage	2	2
Depreciation	2	1
Office costs	1	2
Sundry costs less sundry income	5	2
	55	**64**
Administration fee received	(90)	(90)
	(35)	**(26)**

LPFE, which is a wholly owned subsidiary of the Council, is responsible for providing the staffing resource to administer the pension funds. Lothian Pension Fund (inclusive of Scottish Homes Pension Fund) has a service level agreement in place with the Council for certain support services. Costs directly attributable to a specific fund are charged to the relevant fund, costs that are common to the two funds are allocated on a defined basis.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

4c Investment management expenses

	2022/23	2023/24
	£000	£000
Employee costs	49	52
Custody fees	5	5
Engagement and voting fees	1	1
Consultancy fees	1	7
System costs	15	15
Legal fees	2	-
Office costs	2	3
Sundry costs less sundry income	13	5
	88	**88**

The fund hasn't incurred any performance-related investment management fees in 2023/24 or 2022/23.

5 Investment income

	2022/23	2023/24
	£000	£000
Income from fixed interest securities	1,919	1,838
Interest on cash deposits and sundries	62	153
	1,981	**1,991**
Irrecoverable withholding tax	-	-
	1,981	**1,991**

SCOTTISH HOMES PENSION FUND NOTES TO THE FINANCIAL STATEMENTS

6 Reconciliation of movement in investments

	Market value at 31 March 2023	Purchases at cost	Sales & proceeds	Change in market value	Market value at 31 March 2024
	£000	£000	£000	£000	£000
Bonds	104,882	7,904	(2,390)	(2,380)	108,016
	104,882	**7,904**	**(2,390)**	**(2,380)**	**108,016**
Other financial assets / (liabilities)					
Cash deposits*	19,273			718	9,136
Investment income due/amounts payable*	447			-	490
	19,720			**718**	**9,626**
Net financial assets	**124,602**			**(1,662)**	**117,642**

** Per CIPFA disclosure guidance the change in market value intentionally does not balance opening/closing market values*

The change in market value of investments during the year comprises all increases and decreases in the market value of investments held at any time during the year, including profits and losses realised on sales of investments during the year.

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are reflected in the cost of investment acquisitions and in the proceeds from sales and are therefore included in the tables above.

	Market value at 31 March 2022	Purchases at cost	Sales & proceeds	Change in market value	Market value at 31 March 2023
	£000	£000	£000	£000	£000
Bonds	139,732	27,913	(39,979)	(22,784)	104,882
	139,732	**27,913**	**(39,979)**	**(22,784)**	**104,882**
Other financial assets / (liabilities)					
Cash deposits*	12,291			144	19,273
Investment income due/amounts payable*	471			-	447
	12,762			**144**	**19,720**
Net financial assets	**152,494**			**(22,640)**	**124,602**

** Per CIPFA disclosure guidance the change in market value intentionally does not balance opening/closing market values*

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

7 Investment managers and mandates

		Market value at 31 March 2023	% of total 31 March 2023	Market value at 31 March 2024	% of total 31 March 2024
Manager	**Mandate**	**£000**	**%**	**£000**	**%**
In-house	Ex-Equity	12	0.01	12	0.01
Total ex-equities		**12**	**0.01**	**12**	**0.01**
In-house	UK Index Linked Gilts	124,567	99.97	117,541	99.91
Total fixed interest and	**inflation linked bonds**	**124,567**	**99.97**	**117,541**	**99.91**
In-house	Cash	23	0.02	89	0.08
Total cash		**23**	**0.02**	**89**	**0.08**
Net financial assets		**124,602**	**100.0**	**117,642**	**100**

8 Investments representing more than 5% of the net assets of the fund

	Market value at 31 March 2023	% of total 31 March 2023	Market value at 31 March 2024	% of total 31 March 2024
	£000	**%**	**£000**	**%**
UK Gov 0% T-BILL 26/06/2023	9,903	7.9	-	-
UK Gov 2.5% Index Linked 17/07/24	9,284	7.5	9,508	7.9
UK Gov 1.25% Index Linked 22/11/27	9,024	7.2	9,231	7.7
UK Gov 0% T-BILL 09/09/2024	-	-	8,605	7.2
UK Gov 4.125% Index Linked 22/07/30	8,456	6.8	8,385	7.0
UK Gov 1% 22/04/2024	-	-	7,982	6.7
UK Gov 4.25% 07/06/32	7,309	5.9	7,071	5.9
UK Gov 0% T-BILL 11/09/2023	6,867	5.5	-	-
UK Gov 2% 07/09/2025	-	-	6,108	5.1

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

9 Financial instruments

9a Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair value amounts of financial assets and liabilities by category and net assets statement heading. No financial assets were reclassified during the accounting period.

All financial instruments are marked to market (at fair value) in the fund's accounting records hence there's no difference between the carrying value and fair value.

	31 March 2023			31 March 2024		
Financial assets	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost	Designated as fair value through Fund Account	Loans and receivables	Financial liabilities at amortised cost
Investment assets	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Bonds	104,882	-	-	108,016	-	-
Cash	-	19,273	-	-	9,136	-
Other balances	-	447	-	-	490	-
	104,882	**19,720**	**-**	**108,016**	**9,626**	**-**
Other assets						
City of Edinburgh Council	-	265	-	-	311	-
Cash	-	1,597	-	-	1,927	-
Debtors	-	7	-	-	5	-
	-	**1,869**	**-**	**-**	**2,243**	**-**
Assets total	**104,882**	**21,589**	**-**	**108,016**	**11,869**	**-**
Financial liabilities						
Other liabilities						
Creditors	-	-	(27)	-	-	(25)
Liabilities total	**-**	**-**	**(27)**	**-**	**-**	**(25)**
Total net assets	**104,882**	**21,589**	**(27)**	**108,016**	**11,869**	**(25)**

Total net financial instruments	**126,444**	**119,860**

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

9b Net gains and losses on financial instruments

	2022/23	2023/24
	£000	£000
Designated as fair value through fund account	(22,784)	(2,380)
Loans and receivables	144	718
Financial liabilities at amortised cost	-	-
Total	**(22,640)**	**(1,662)**

9c Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities and unit trusts.

Quoted investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that isn't considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument’s valuation isn't based on observable market data. Such instruments would include unquoted equity investments, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

9c Valuation of financial instruments carried at fair value cont

The values of the investments in unquoted private equity, infrastructure, timber and real estate are based on valuations provided by the general partners to the funds in which the Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines or similar guidelines provided by the British Venture Capital Association, which follow the valuation principles of International Financial Reporting Standards (IFRS). The valuations are typically undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

	31 March 2024			
	Level 1	Level 2	Level 3	Total
Investment assets	£000	£000	£000	£000
Bonds	108,016	-	-	108,016
Cash deposits	9,136	-	-	9,136
Investment income due/amounts payable	490	-	-	490
Total financial assets	**117,642**	**-**	**-**	**117,642**
Investment liabilities				
Payable for investment purchases	-	-	-	-
Total investment liabilities	**-**	**-**	**-**	**-**
Net investment assets	**117,642**	**-**	**-**	**117,642**

	31 March 2023 restated			
	Level 1	Level 2	Level 3	Total
Investment assets	£000	£000	£000	£000
Bonds	104,882	-	-	104,882
Cash deposits	19,273	-	-	19,273
Investment income due/amounts payable	447	-	-	447
Total financial assets	**124,602**	**-**	**-**	**124,602**
Investment liabilities				
Payable for investment purchases	-	-	-	-
Total investment liabilities	**-**	**-**	**-**	**-**
Net investment assets	**124,602**	**-**	**-**	**124,602**

Prior Year Restatement of the Fair Value Heirarchy

In preparing the fund's Financial Statements, CIPFA guidance for preparing the Fair Value Heirarchy was updated to promote UK gilts, US treasury bonds and other highly liquid exchange traded bonds, as level 1 assets, where in the prior period they were classified as level 2.

Therefore, the prior year classification of bonds have been restated to level 1 from nil to £104,882,631.14, with level 2 subsequently being written down to nil.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

10 Nature and extent of risk arising from financial instruments

Risk and risk management

The fund's primary aim is to ensure that all members and their dependents receive their benefits when they become payable. As directed by Scottish Government, with the 31 March 2023 actuarial valuation showing a funding level of 127%, the fund is invested entirely in low risk assets. In addition, the fund ensures that sufficient cash is available to meet all liabilities when they fall due.

Responsibility for the fund's overall investment strategy rests with the Pensions Committee. The Joint Investment Forum and the internal investment team monitor investment risks on a regular basis. Investment risk management tools are used to identify and analyse risks faced by the fund's investments.

Types of investment risk

There are various ways of considering investment risks for pension funds. For the purposes of this note, market risk is the potential for an investor to experience losses from falls in the prices of investments. All financial instruments, including cash deposits, present a risk of loss of capital and risks vary depending on different asset classes.

Market risk also changes over time as economic conditions and investor sentiment change. The market risk of the Scottish Homes Pension Fund has to some extent been mitigated, as the fund holds only gilts and cash. Most of the reduction in market risk is relative to the liabilities, and not outright. The fund's assets have been matched to its liabilities as at the 31 March 2020 triennial valuation so that interest rate risk has been minimised and as all assets held are valued in pound Sterling, no exchange risk occurs. A review of the asset matching of the fund takes place following the publication of each triennial valuation, which is typically a year after the valuation point. Following the results of the 31 March 2023 triennial valuation, rebalancing is scheduled to take place early in the new financial year.

Sensitivity analysis

Asset prices have a tendency to fluctuate. The degree of such fluctuation is known as "volatility" and it differs by asset class. The table sets out the long-term volatility assumptions used by the fund's investment adviser Isio:

Asset type	Potential price movement (+ or -)
Index-Linked Gilts	11.8%
Fixed Interest Gilts	11.4%
Cash	1.6%

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

10 Nature and extent of risk arising from financial instruments (cont)

Volatility is the standard deviation of annual returns. Broadly speaking, in two years out of three, the asset's change in value (which could be a gain or a loss) is expected to be lower than the volatility figure, but in one year out of three, the change in value is expected to be higher than the volatility figure.

Asset classes don't always move in line with each other. The extent to which assets move together is known as their "correlation". A lower correlation means that there's less risk of assets losing value at the same time. The overall fund benefits from "diversification" because it invests in numerous different asset classes, which don't all move in line with each other. Consequently, the aggregate risk at the fund level is less than the total risk from all the individual assets in which the fund invests.

The following table shows the risks at the asset class level and the overall fund level.

	Value at 31 March 2024	% of fund	Potential Change +/-	Value on increase	Value on decrease
	£m	%	%	£m	£m
Index-Linked Gilts	72	61.2	11.8	80	63
Fixed Interest Gilts	36	31.0	11.4	40	32
Cash	9	7.8	1.6	9	9
Total [1]	**117**	**100.0**	**12.7**	**130**	**104**
Total [2]			**11.6**	**129**	**106**
Total [3]			**1.9**	**119**	**n/a**

[1] No allowance for correlations between assets

[2] Including allowance for correlations between assets

[3] Including allowance for correlation between assets and liabilities.

The value on increase/decrease columns illustrate the monetary effect of the percentage change in the volatility column. The actual annual change in value is expected to be lower than this in two years out of three, but higher in one year out of three.

It can be seen that the risk to the overall fund assets [2] is lower than the total of the risks to the individual assets [1].

However, because the purpose of a pension scheme is to make payments to scheme beneficiaries, the true risk of a pension scheme isn't measured in absolute terms, but relative to its liabilities [3]. The risk is lower than the absolute asset risk, due to the impact of correlation with the discount rate used to value the liabilities.

This risk analysis incorporates volatility from market, interest rate, foreign exchange, credit, and all other sources of risk, and, importantly, makes allowance for how these risks may offset each other.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

10 Nature and extent of risk arising from financial instruments (cont)

Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the value of the Fund's assets and liabilities (as outlined in Market Risk above).

In essence, the Fund’s entire investment portfolio is exposed to some sort of credit risk. However, through the selection of counterparties, brokers and financial institutions the Fund reduces the credit risk that may occur through the failure to settle a transaction in a timely manner.

Cash deposits are the major areas of credit exposure where credit risk isn't reflected in market prices.

Cash deposits

At 31 March 2024, cash deposits represented £11.1m, 9.3% (2023: £20.9m, 16.5%) of total net assets. This was held with the following institutions:

	Moody's Credit Rating at 31 March 2024	Balances at 31 March 2023	Balances at 31 March 2024
Held for investment purposes		**£000**	**£000**
Northern Trust Company - cash deposits	A2	2,502	531
UK Short-Term Bills and Notes	Aa3	16,771	8,605
		19,273	**9,136**
Held for other purposes			
The City of Edinburgh Council - treasury management	See below	1,597	1,927
Total cash		**20,870**	**11,063**

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

10 Nature and extent of risk arising from financial instruments (cont)

The majority of Sterling cash deposits of the fund are managed along with those of the administering authority (the City of Edinburgh Council) and other related organisations which are pooled for investment purposes as a treasury cash fund. Management of the cash fund is on a low risk basis, with security of the investments the key consideration. The Council has in place counterparty criteria.

The Council has in place institutional restrictions on investments and counterparty criteria. These include:

(a) UK Government and other UK local Authorities with no limit, other public bodies up to £20 million per organisation
(b) Money market funds (MMFs) no more than £30 million or 15% with any one fund
(c) Financial Institutions: Banks and Building Societies with multiple criteria based on a range of short and long term credit ratings, as well as any security provided, from maximum of £60 million / 20% of assets under management (AUM) for institutions with the highest criteria to £10 million / 5% of AUM for institutions with the lowest acceptable criteria.

	Moody's Credit Rating at 31 March 2024	Balances at 31 March 2023	Balances at 31 March 2024
Money market funds	**£000**	**£000**	**£000**
Deutsche Bank AG, London	Aaa-mf	224	268
Goldman Sachs	Aaa-mf	7	1
Aberdeen Standard Sterling Liquidity Fund	Aaa-mf	58	268
Bank call accounts			
Bank of Scotland	A1	1	-
Royal Bank of Scotland	A1	59	20
Svenska Handelsbanken	A2	73	1
Notice accounts			
HSBC Bank PLC	A1	1	-
UK Government			
Gilts & T-Bills and UK Government Debt	Aa3	240	256
UK Pseudo-Sovereign risk instruments			
Other Local Authorities [1]	Aa3	934	1,113
		1,597	**1,927**

[1] Very few Local Authorities have their own credit rating but they're generally assumed to have a pseudo-sovereign credit rating (which in the UK at 31 March 2024 was 'Aa3').

No breaches of the Council's counterparty criteria occurred during the reporting period and the fund doesn't expect any losses from non-performance by any of its counterparties in relation to deposits.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

10 Nature and extent of risk arising from financial instruments (cont)

Refinancing risk

Refinancing risk is the risk that the fund will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The fund isn't bound by any obligation to replenish its investments and hence is not exposed to refinancing risk.

Liquidity risk

Liquidity risk reflects the risk that the fund won't be able to meet its financial obligations as they fall due. The fund therefore ensures that there's adequate cash and liquid resources to meet its commitments. Cash flow projections are prepared on a regular basis to understand and manage the timing of the fund's cash flows.

All of the fund's investments could be converted to cash within three months in a normal trading environment.

11 Actuarial statement

The Actuary has provided a statement describing the funding arrangements of the fund. This can be found at the end of this section.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

12 Actuarial present value of promised retirement benefits

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £92m (2023 £95m). This figure is used for statutory accounting purposes by Scottish Homes Pension Fund and complies with the requirements of IAS26. The assumptions underlying the figure match those adopted for the Administering Authority's IAS19 reports at each year end.

The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it isn't relevant for calculations undertaken for funding purposes and setting contributions payable to the fund.

	31 March 2023	31 March 2024
	% p.a.	% p.a.
Inflation/pensions increase rate	2.95	2.80
Discount rate	4.75	4.80

Longevity assumptions

The longevity assumptions have changed since the previous IAS26 disclosure for the fund.

Life expectancy is based on the fund's VitaCurves with improvements in line with the CMI 2022 model, with a 25% weighting of 2022, 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of improvement of 0.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	31 March 2023		31 March 2024	
	Male	Female	Male	Female
Current pensioners	20.4 years	23.1 years	20.2 years	23.0 years
Future pensioners (assumed to be currently 45)	20.4 years	25.8 years	20.7 years	24.9 years

Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2009 service and 75% of the maximum tax-free cash for post-April 2009 service.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

13 Debtors

	31 March 2023	31 March 2024
	£000	£000
Sundry debtors	7	5
	7	5

14 Creditors

	31 March 2023	31 March 2024
	£000	£000
Benefits payable	25	25
Miscellaneous creditors and accrued expenses	2	-
	27	25

15 Related party transactions

The City of Edinburgh Council

The Lothian Pension Fund and the Scottish Homes Pension Fund are administered by the City of Edinburgh Council. Consequently there's a strong relationship between the Council and the pension Funds.

LPFE, which is a wholly owned subsidiary of the Council, is responsible for providing the staffing resource to administer the pension funds. Lothian Pension Fund (inclusive of Scottish Homes Pension Fund) has a service level agreement in place with the Council for certain support services. Costs directly attributable to a specific fund are charged to the relevant fund, costs that are common to the two funds are allocated on a defined basis.

Transactions between the Council and the fund are managed via a holding account. Each month the fund is paid a cash sum, leaving a working balance in the account to cover the month's pension payroll costs and other expected costs.

	31 March 2023	31 March 2024
	£000	£000
Year end balance of holding account	265	311
	265	311

Part of the fund's cash holdings are invested on the money markets by the treasury management operations of the Council, through a service level agreement. During the year to 31 March 2024, the fund had an average investment balance of £1.4m (2023 £1.4m). Interest earned was £89k (2023 £31k).

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

15 Related party transactions cont

	31 March 2023	31 March 2024
Year end balance on treasury management account	**£000**	**£000**
Held for other purposes	1,597	1,927
	1,597	**1,927**

Fund guarantor

The fund guarantor (by definition) is a related party to the scheme. The Scottish Government's contributions to the fund can be found in note 3 (page 128) of the notes to the Financial Statements.

LPFE Limited - staffing services

Staffing services are provided to Lothian Pension Fund and Scottish Homes Pension Fund for the purposes of administering the funds under an intra-group resourcing agreement. The agreement also provides for the running costs of the company to be covered as part of a service charge and allows for the provision of staffing services to LPFI Limited. Lothian Pension Fund is invoiced for these services and Scottish Homes Pension Fund is then allocated a percentage recharge on a defined basis. During the year to 31 March 2024, the fund was recharged £85k (2023 £78k) for the services of LPFE Limited staff.

Governance

As at 31 March 2024, all members of the Pensions Committee and the Pension Board were members of the Lothian Pension Fund, with the exception of Richard Lamont and Tony Beecher. One member of both the Pensions Committee and the Pension Board is in receipt of pension benefits from Lothian Pension Fund.

Each member of the Pensions Committee and Pensions Board is required to declare any financial and non-financial interests they have in the items of business for consideration at each meeting, identifying the relevant agenda item and the nature of their interest.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

15 Related party transactions (cont)

During the period from 1 April 2023 to the date of issuing of these accounts, Lothian Pension Fund was charged by City of Edinburgh Councils via its service level agreement for time spent by its Executive Management team on pension fund issues. Scottish Homes Pension Fund is then recharged for these services on a defined basis. All other staff that held key positions in the financial management of Lothian Pension Fund and Scottish Homes Pension Fund were employed by LPFE Limited. Total compensation paid in relation to key management personnel employed by LPFE Limited during the period was as follows:

	31 March 2023	31 March 2024
	£000	£000
Short-term employee benefits	1,281	1,652
Post-employment benefits - employer pension contributions	119	120

Key management personnel employed by LPFE had accrued pensions totalling £51,302 (1 April 2023: £148,034) and lump sums totalling £36,059 (1 April 2023: £147,429) at the end of the period. Further details on senior management remuneration can be found within the remuneration report on page 181.

Staff are either employed by City of Edinburgh Council or LPFE Limited, and their costs reimbursed by the pension funds. The Councillors, who are members of the Pensions Committee, are also remunerated by City of Edinburgh Council.

16 Contingent assets/liabilities

Rectification of age discrimination - McCloud and Sargeant judgements

When public service pension schemes were reformed following the Public Service Pensions Act 2013, protections for older scheme members were introduced. In December 2018, the Court of Appeal ruled that the transitional protections included in the Judges' ("McCloud") and Firefighters' ("Sargeant") pension schemes constituted unlawful age discrimination. Following this, in July 2019 a Written Ministerial Statement confirmed that the UK Government believed that the ruling applied to all the main public service pension schemes and that the discrimination would be addressed in all the relevant schemes, including Local Government Pension Scheme (LGPS) in Scotland.

Regulations to apply the remedy came into force on 1 October 2023. As expected, a comparison is to be made between the benefits payable under the current rules with the entitlements which would have been paid if the Scheme hadn't changed in 2015, and with any higher sum being paid to the member (the 'guarantee amount'). This protection applies automatically and members who meet the qualifying criteria don't need to take any action. Many members benefits won't change or will only see a small increase.

SCOTTISH HOMES PENSION FUND
NOTES TO THE FINANCIAL STATEMENTS

As expected, implementation of the remedy has been complex and guidance is still being issued for transfer calculations and payment of interest to pensioners. We've delivered on key milestones by collecting and validating data from scheme employers and running bulk calculations to prepare our member records. Next steps will be switching on McCloud calculations so that guarantee amount checks are built into day to day calculations and once further guidance has been received regarding calculation of interest for affected pensioners, we'll be able to recalculate their benefits. The fund's IAS26 reporting from its actuary, as disclosed in Note 14, takes into account the appeal decision and the proposed remedy.

17 Contractual commitments

The fund had no contractual commitments at the year end.

18 Impairment losses

No impairment losses have been identified during the year.

SCOTTISH HOMES PENSION FUND ("THE FUND") ACTUARIAL STATEMENT FOR 2023/24

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2018. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of funding policy

The Administering Authority's Funding Strategy Statement (FSS), dated March 2024, states that a bespoke funding strategy has been adopted for the Fund.

The strategy aims for the Fund to be 100% solvent by 2044 using a discount rate based on government bonds. It includes target funding levels at each actuarial valuation. Contributions from the Scottish Government are determined by reference to the target funding levels. The deficit recovery period is 8 years.

As the Fund is closed to accrual and the liabilities will mature over the time, the investment strategy is designed to reflect the expressed requirements of the Scottish Government, namely low risk, with investments now exclusively bonds.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 was as at 31 March 2023. This valuation revealed that the Fund's assets, which at 31 March 2023 were valued at £126 million, were sufficient to meet 127% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2023 valuation was £27 million.

The Guarantor's contributions for the period 1 April 2024 to 31 March 2027 were set in accordance with the Fund's funding policy as set out in its FSS.

SCOTTISH HOMES PENSION FUND ("THE FUND") ACTUARIAL STATEMENT FOR 2023/24

Principal actuarial assumptions and method used to value the liabilities

Full details of the methods and assumptions used are described in the 2023 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2023 valuation were as follows:

Financial assumptions	31 March 2023
Discount Rate	Bank of England nominal yield curve
Benefit increase assumption (CPI)	Bank of England implied inflation (RPI) curve less 1% p.a. before 2030 and 0.1% p.a. thereafter*

** The change in RPI-CPI gap assumption is to reflect changes to RPI from 2030, when it will be redefined to match CPIH. CPIH inflation is historically very similar to CPI inflation hence the gap of only 0.1% pa after that point.*

LOTHIAN PENSION FUND

SCOTTISH HOMES PENSION FUND ("THE FUND") ACTUARIAL STATEMENT FOR 2023/24

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2022 model, with a 25% weighting of 2022 data, a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of 1.50% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Male	Female
Current Pensioners	20.2 years	23.0 years
Future Pensioners *	20.7 years	24.9 years

**Currently aged 45*

Copies of the 2023 valuation report and Funding Strategy Statement are available on the LPF website.

Experience over the period since 31 March 2023

Since the last formal valuation, real bond yields have risen, reducing the value of the liabilities and the assets held by the Fund. As a result, the funding level of the Fund as at 31 March 2024 is likely to be fairly similar to that reported at the previous formal valuation.

The next actuarial valuation will be carried out as at 31 March 2026. The Funding Strategy Statement will also be reviewed at that time.

Richard Warden FFA
For and on behalf of Hymans Robertson LLP
8 May 2024

ACCOUNTING POLICIES AND GENERAL NOTES

1. Basis of preparation

The Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The Financial Statements summarises the transactions of the funds for the 2023/24 financial year and report on the net assets available to pay pension benefits as at 31 March 2024. The Financial Statements don't take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present values of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, are disclosed in the Notes to the Financial Statements.

The Financial Statements are prepared on the going concern basis, which provides that the funds will continue in operational existence for the foreseeable future. The basis is on the grounds that there's sufficient funding available to the funds to support the anticipated continuation of the provision of services.

2. Summary of significant accounting policies

General

a) Basis of consolidation – Group accounts

Commencing with the year ended 31 March 2018, Consolidated Financial Statements have been prepared for Lothian Pension Fund. The Financial Statements of Scottish Homes Pension Fund continue to be prepared on a single entity basis.

The Consolidated Financial Statements for Lothian Pension Fund are prepared by combining the Financial Statements of the fund (the parent entity) and its controlled entities (LPFE Limited and LPFI Limited) as defined in accounting standard IAS27 – Consolidated and Separate Financial Statements. Consistent accounting policies are employed in the preparation and presentation of the Consolidated Financial Statements. All inter-entity balances and transactions between entities, including any unrealised profits or losses, have been eliminated on consolidation.

Further details of the consolidation are provided in the Notes to the Financial Statements of Lothian Pension Fund.

LPFE Limited (LPFE) and LPFI Limited (LPFI) are wholly owned by the City of Edinburgh Council in its capacity as administering authority for the Local Government Pension Scheme in the Lothian area.

The purpose of LPFE is to provide staff services in respect of management of the fund. LPFI's purpose is to provide FCA regulated services to LPF and other Local Government Pension Scheme funds. It's considered appropriate to consolidate the Financial Statements of the two companies with those of Lothian Pension Fund.

ACCOUNTING POLICIES AND GENERAL NOTES

Fund Account – revenue recognition

b) Contribution income

Normal contributions, both from the members and from employers, are accounted for on an accruals basis at the rate certified by the Scheme Actuary in the payroll period to which they relate.

Similarly, employer deficit funding contributions are accounted for on the due date on which they're payable as certified by the Scheme Actuary.

Employers' pensions strain contributions are accounted for in the period in which the liability arises. Any amount due but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

c) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis and are included in transfers in.

Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

d) Investment income

i) Interest income
Interest income is recognised in the Fund Accounts as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income
Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

ACCOUNTING POLICIES AND GENERAL NOTES

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iv) Income from unquoted private equity and infrastructure investments

Income from the above sources is recognised when a distribution notice is issued by the Manager. Distributions are split into capital and income elements, with the latter being included under investment income in the Fund Account.

v) Property related income

Property related income consists primarily of rental income. Rental income from operating leases on properties owned by Lothian Pension Fund is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

Rental income is reported gross with the operational costs of the properties included in investment management expenses.

Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

Rental income, excluding VAT, arising from operating leases (including those containing stepped and fixed rent increases) is accounted for in the Fund Account on a straight line basis over the lease term. Lease premiums paid and rent free periods granted, are recognised as assets and are amortised over the non-cancellable lease term.

IFRS 15 requires the fund to determine whether it's a principal or an agent when goods or services are transferred to a customer. An entity is a principal if the entity controls the promised good or service before the entity transfers the goods or services to a customer.

An entity is an agent if the entity's performance obligation is to arrange for the provision of goods and services by another party. Any leases entered into between the fund and a tenant require the fund to provide ancillary services to the tenant such as maintenance works etc, therefore these service charge obligations belong to the fund. However, to meet this obligation the fund appoints a property agent, Jones Lang Lasalle Inc "JLL" and directs it to fulfil the obligation on its behalf. The contract between the fund and the managing agent creates both a right to services and the ability to direct those services. This is a clear indication that the fund operates as a principal and the managing agent operates as an agent. Therefore, it's necessary to recognise the gross service charge revenue and expenditure billed to tenants as opposed to recognising the net amount.

Interest income is accounted on an accruals basis and included in operating profit.

vi) Movement in the net market value of investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

ACCOUNTING POLICIES AND GENERAL NOTES

Fund Account – expense items

e) Benefits payable

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

f) Taxation

i) Pension funds

The Local Government Pension Scheme is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

ii) Controlled entities – LPFE and LPFI

The Companies are mutual traders and are therefore not liable to corporation tax on any surpluses generated from services provided in respect of the fund. The tax charges for the period are based on any profit for the period from non-mutual trade, adjusted for any non-assessable or disallowed items. They're calculated using tax rates that have been enacted or are substantively enacted by the period end date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. No deferred tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred tax assets are recognised to the extent that it's probable that future profits will be available against which deductible temporary differences can be utilised.

The amount of benefit brought to account, or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

ACCOUNTING POLICIES AND GENERAL NOTES

g) Administrative expenses

All administrative expenses are accounted for on an accruals basis. Lothian Pension Fund is responsible for administering the two funds. The costs include charges from LPFE and LPFI for services rendered. LPF receives an allocation of the overheads of the Council based on the amount of central services consumed. In turn, these costs are allocated to the two funds.

Costs directly attributable to a specific fund are charged to the relevant fund. Investment management costs that are common to all funds are allocated in proportion to the value of each fund as at the end of the year. Other administration costs are allocated in proportion to the number of members in each of the funds at the end of the year.

h) Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

For some investment managers, an element of their fee is performance related. The amount of any performance related fees paid is disclosed in the note to the accounts on investment management expenses provided for each fund.

The cost of administering the Local Government Pension Scheme in the UK has come under increasing scrutiny in recent years. As a result, it has been decided to recognise investment management costs that are deducted from the value of an investment and recognised this as a cost in the Fund Account rather than as a reduction in the change in market value of investments. Investment transaction costs that are added to an investment purchase price or deducted from the proceeds of a sale are also recognised as a cost in the Fund Account rather than as a reduction in the change in market value of investments.

In June 2016, CIPFA revised and updated its guidance “Accounting for Local Government Pension Scheme Management Costs”. Whilst the underlying principle of transparency of investment costs remains unchanged, there’s been a degree of relaxation to full cost disclosure. Specifically, for complex ‘fund of funds’ structures, the new guidance states that “Investment costs incurred by a separate legal entity, or in respect of investment decisions over which the pension fund has no control, should not be included in the (Pension) Fund Account . . . If pension funds wish to provide information about the total cost of ‘fund of fund’ investments, this should be included as part of the Investments section in the Annual Report.”

The impact of this is that investment management costs deducted from any underlying fund in a ‘fund of funds’ investment would not be included in the costs disclosed in the Fund Account. As this would significantly under-report investment management costs, it has been decided not to adopt this element of the CIPFA guidance. However, this type of cost is separately identified as "external management fees – deducted from capital (indirect)" in the notes on investment management expenses.

ACCOUNTING POLICIES AND GENERAL NOTES

Any indirect costs incurred through the bid-offer spread on some pooled investment vehicles are not treated as an expense. Such costs are accounted for as part of the acquisition costs or sale proceeds.

The cost of obtaining investment advice from external consultants is included in investment management charges.

The costs of the in-house investment management team are charged to the fund. The basis of allocation is as described in section g.

Securities lending revenue is reported gross and their fees are disclosed in investment management expenses.

i) Operating lease

Lease payments under an operating lease are recognised as an expense on a straight-line basis over the term of the lease. In accordance with IFRS 16, lease incentives are recognised as a reduction in the lease expense over the term of the lease on a straight-line basis.

Net Assets Statement

j) Financial assets

Financial assets are included in the Net Assets Statement on a fair value basis as at the reporting date. A financial asset is recognised in the Net Assets Statement on the date the fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of asset are recognised by the fund.

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the fund's Investment Valuation Policy. The Policy is designed to provide a framework for LPF's investment valuation process as determined by the Investment Valuation Group, which has been given delegated authority from the Chief Executive Officer of the fund.

The fund's Investment Valuation Group reviews the valuation process for all investments on an annual basis, including the application of appropriate valuation standards, based on the input of LPF's Investment Management team. Group members consist of the fund's Portfolio Managers, Finance Managers, and Risk Managers.

For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

The basis of the valuation of each class of investment assets is set out on the next page. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

LOTHIAN
PENSION FUND

157%

Our October 2023 funding level, up from 106% in 2020.

ACCOUNTING POLICIES AND GENERAL NOTES

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivity affecting the valuations provided
Market quoted investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Future derivative contracts	Level 1	Determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.	Not required	Not required
Forward foreign exchange derivatives	Level 1	Based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.	Not required	Not required
Government bonds – fixed interest / index linked	Level 1	Recorded at net market value based on their current yields.	Evaluated price feeds	Not required
Freehold and leasehold properties	Level 3	Valued at fair value at the year-end using the investment method of valuation by CBRE Ltd in accordance with RICS Red Book Global Valuation Standards (introduced with effect from 31 January 2022).	Existing lease terms and rentals. Independent market research.	Significant changes in rental growth, vacancy levels or the discount rate could affect valuations as could more general changes to market prices
Unquoted Pooled investments – Private Equity, Infrastructure, Timber, Private Secured Loans & Property	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Guidelines and the IPEV Board's Special Valuation Guidance (March 2020).	EBITDA multiple revenue multiple. Discount for lack of marketability. Control premium.	Valuations could be affected by material events occurring between the date of the financial statements provided and the fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

ACCOUNTING POLICIES AND GENERAL NOTES

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and in consultation with independent investment advisers, the fund has determined that the valuation methods described above are likely to be accurate to within the following margin of error, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2024.

Lothian Pension Fund	Assessed Valuation range (+ or -)	Value at 31 March 2024	Value on increase	Value on decrease
Unquoted		**£m**	**£m**	**£m**
Private Equity	26.0%	77	97	57
Infrastructure	12.0%	1,536	1,720	1,351
Timber	15.0%	115	132	98
Private Secured Loans	10.5%	241	266	216
Property	13.0%	406	459	353
		2,374	**2,674**	**2,075**

Scottish Homes Pension Fund has no assets valued at Level 3.

k) Foreign currency transactions and balances
Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of the transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

l) Cash and cash equivalents
Cash comprises of cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

m) Financial liabilities
The fund recognise financial liabilities at fair value as at the reporting date. A financial liability is recognised in the Net Assets Statement on the date the fund becomes party to the liability. From this date, any gains or losses arising from changes in the fair value of the liability are recognised.

n) Actuarial present value of promised retirement benefits
The actuarial present value of promised retirement benefits of each of the fund is assessed on an basis by

ACCOUNTING POLICIES AND GENERAL NOTES

the Scheme Actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statements.

o) Additional voluntary contributions
The Lothian Pension Fund provide an additional voluntary contributions (AVC) scheme for their members, the assets of which are invested separately from those of the fund. The fund has appointed Standard Life and Prudential as their AVC providers. AVCs are paid to the AVC providers by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

In accordance with regulation 5(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 1998, AVCs aren't included in pension fund financial statements. Details of contributions paid and the total value of funds invested are disclosed by way of note.

p) Contingent assets and contingent liabilities
A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it isn't possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities aren't recognised in the Net Assets Statement but are disclosed by way of narrative in the notes.

q) Employee benefits
The employees of LPFE are eligible to participate in Lothian Pension Fund.

In the Consolidated Financial Statements, the current service cost for the period is charged to the Fund Account. The assets of Lothian Pension Fund are held separately from those of the Company. The Company has fully adopted the accounting principles as required by IAS19 – Employee Benefits.

The liability recognised in the Net Asset Statement in respect of the defined benefit pension plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs.

ACCOUNTING POLICIES AND GENERAL NOTES

The defined benefit obligation is calculated annually, by the Scheme Actuary, using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in a currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligations.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the Fund Account in the period in which they arise.

Past-service costs are recognised immediately in the Fund Account, unless the changes to the pension plan are conditional on the employees remaining in service for a specified time period (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

3 . Accounting Standards that have been issued but not yet adopted

The standards introduced by the 2024/25 Code where disclosures are required in the 2023/24 financial statements, in accordance with the requirements of paragraph 3.3.4.3 of the Code, are:

- **Classification of Liabilities as Current or Non-current (Amendments to IAS 1)** issued in January 2020. The amendments:
  - specify that an entity's right to defer settlement must exist at the end of the reporting period
  - clarify that classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement
- **Clarify how lending conditions affect classification, and**
  - clarify requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments
- **Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)** issued in September 2022. The amendments to IFRS 16 add subsequent measurement requirements for sale and leaseback transactions.
- **Non-current Liabilities with Covenants (Amendments to IAS 1)** issued in October 2022. The amendments improved the information an entity provides when its right to defer settlement of a liability for at least 12 months is subject to compliance with covenants.
- **International Tax Reform: Pillar Two Model Rules (Amendments to IAS 12)** issued in May 2023. Pillar Two applies to multinational groups with a minimum level of turnover. The amendments introduced:
  - a temporary exception to the requirements to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes, and
  - targeted disclosure requirements for affected entities.
- **Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)** issued in May 2023. The amendments require an entity to provide additional disclosures about its supplier finance arrangements. The IASB developed the new requirements to provide users of financial statements with information to enable them to:
  - assess how supplier finance arrangements affect an entity's liabilities and cash flows, and
  - understand the effect of supplier finance arrangements on an entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available to it.

These items will not have a significant impact on the amounts anticipated to be reported in the financial statements.

ACCOUNTING POLICIES AND GENERAL NOTES

4 . Critical judgements in applying accounting policies

Unquoted private equity and infrastructure investments

It's important to recognise the highly subjective nature of determining the fair value of private equity and infrastructure investments.

They're inherently based on forward-looking estimates and judgements involving many factors. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation (IPEV) Guidelines or similar guidelines provided by the British Venture Capital Association, which follow the valuation principles of IFRS.

For the Lothian Pension Fund, the value of unquoted private equity, infrastructure, timber and secured loan investments at 31 March 2024 was £1,946m (2023 £1,712m).

Actuarial present value of promised retirement benefits

Each fund is required to disclose the estimated actuarial present value of promised retirement benefits as at the end of the financial year. These estimates are prepared by the Fund Actuary. These values are calculated in line with International Accounting Standard 19 (IAS19) assumptions and comply with the requirements of IAS26. However, the results are subject to significant variances based on changes to the underlying assumptions.

The figures are only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it's not relevant for calculations undertaken for funding purposes and setting contributions payable to the fund.

5 . Assumptions made about the future and other major sources of estimation uncertainty

The Financial Statements contain estimated figures that are based on assumptions made by the Council; private equity and infrastructure Managers; other providers of valuation information; and the Scheme Actuary about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because amounts cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Net Assets Statement at 31 March 2024 for which there's a significant risk of material adjustment in the forthcoming financial year are as follows:

ACCOUNTING POLICIES AND GENERAL NOTES

a) Actuarial present value of promised retirement benefits

Uncertainties

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on the fund's assets. The fund Actuary advises on the assumptions to be applied and prepares the estimates.

Effect if actual results differ from assumptions – Lothian Pension Fund

The effects on the net pension liability of changes in individual assumptions can be illustrated as follows:

Change in assumptions – year ended 31 March 2024	Approximate % increase to promised retirement benefits	Approx monetary amount £m
0.1% p.a. decrease in the Discount Rate	2%	129
1 year increase in member life expectancy	4%	305
0.1% p.a. increase in Salary Increase Rate	0%	8
0.1% p.a. increase in the Rate of CPI Inflation	2%	121

Effect if actual results differ from assumptions – Scottish Homes Pension Fund

The effects on the net pension liability of changes in individual assumptions can be illustrated as follows:

Change in assumptions – year ended 31 March 2024	Approx Increase in liabilities %	Approx monetary amount £m
0.1% p.a. decrease in the Discount Rate	1%	1
1 year increase in member life expectancy	4%	4
0.1% p.a. increase in the Rate of CPI Inflation	1%	1

ACCOUNTING POLICIES AND GENERAL NOTES

b) Valuation of unquoted private equity and infrastructure investments

Uncertainties

These investments aren't publicly listed and therefore there's a degree of estimation involved in their valuation, see 2j above for more details on the valuation methodology.

Effect if actual results differ from assumptions

There is a risk that these investments may be under or overstated in the Financial Statements at any point in time. The actual financial return of this type of investment is only known with certainty when they reach the end of their lifecycles and the final distributions are made to investors. A sensitivity analysis can be found in note 2j above.

c) Quantifying the cost of investment fees deducted from capital

Uncertainties

Section 2 h) describes the Accounting Policy for investment management expenses in relation to expenses deducted from the capital value of investments. Quantification of these costs involves asking the relevant Managers for information and only some of this information can be independently verified. In cases where the charges relate to an investment as a whole, an estimate needs to be made of the costs applicable to the holding owned by the relevant fund.

Effect if actual results differ from assumptions

There's a risk that the cost of investment fees deducted from capital may be under or overstated. However, as the costs are included in the Fund Account by adjusting the change in market value of investments, any inaccuracy in the cost estimate won't change the reported net change in the fund for the year.

STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS

The responsibilities of the Administering Authority

The Administering Authority's responsibilities are to:

- Make arrangements for the proper administration of the financial affairs of the fund in its charge and to secure that one of its officers has the responsibility for the administration of those affairs. The Head of Finance serves as the Section 95 Officer for all the Council's accounting arrangements, including those of Lothian Pension Fund and Scottish Homes Pension Fund. For the fund, this Section 95 responsibility has been delegated to the Chief Finance Officer, Lothian Pension Fund
- Manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014) and, so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003)
- Approve the Unaudited Annual Accounts for signature.

I confirm that these Unaudited Annual Accounts were approved for signature by the Lothian Pension Fund Committee at its meeting on 26 June 2024.

Richard Lloyd-Bithell
Service Director: Finance and Procurement
The City of Edinburgh Council
25 September 2024

STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS

The responsibilities of the Chief Finance Officer, Lothian Pension Fund

The Chief Finance Officer, Lothian Pension Fund, is responsible for the preparation of the fund's Financial Statements which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (the Code of Practice), is required to present a true and fair view of the financial position of the fund at the accounting date and their income and expenditure for the year ended 31 March 2024.

In preparing this statement of accounts, the Chief Finance Officer, Lothian Pension Fund, has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with legislation and the Local Authority Accounting Code (in so far as it is compatible with legislation).

The Service Director: Finance and Procurement, has also:

- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Financial Statements give a true and fair view of the financial position of the pension fund as at 31 March 2024 and the transactions of the pension fund for year ended 31 March 2024.

Alan Sievewright
Chief Finance Officer
Lothian Pension Fund
25 September 2024

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE CITY OF EDINBURGH COUNCIL AS ADMINISTERING AUTHORITY FOR LOTHIAN PENSION FUND AND SCOTTISH HOMES PENSION FUND AND THE ACCOUNTS COMMISSION

Reporting on the audit of the financial statements

Opinion on financial statements

We certify that we have audited the financial statements in the annual report of Lothian Pension Fund (parent and group) and Scottish Homes Pension Fund (the Funds) for the year ended 31 March 2024 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Lothian Pension Fund, Fund Account, the Lothian Pension Fund Net Assets Statement, Scottish Homes Pension Fund, Fund Account, the Scottish Homes Pension Fund Net Assets Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (the 2023/24 Code).In our opinion the accompanying financial statements:

- give a true and fair view of the financial transactions of the funds during the year ended 31 March 2024 and of the amount and disposition at that date of their assets and liabilities;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2023/24 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Accounts Commission on 3 November 2022. Our period of appointment is five years, covering 2022/23 to 2026/27. We are independent of the funds in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council as administering authority for the funds.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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Conclusions relating to going concern basis of accounting

We have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the funds' ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

These conclusions are not intended to, nor do they, provide assurance on the funds' current or future financial sustainability. However, we report on the funds' arrangements for financial sustainability in a separate Annual Audit Report available from the Audit Scotland website.

Risks of material misstatement

We report in our Annual Audit Report the most significant assessed risks of material misstatement that we identified and our judgements thereon.

Responsibilities of the Chief Finance Officer and the City of Edinburgh Council for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Finance Officer is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the funds' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the funds' operations.

The City of Edinburgh Council is responsible for overseeing the financial reporting process.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE CITY OF EDINBURGH COUNCIL AS ADMINISTERING AUTHORITY FOR LOTHIAN PENSION FUND AND SCOTTISH HOMES PENSION FUND AND THE ACCOUNTS COMMISSION

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using our understanding of the local government sector to identify that the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, the Local Government in Scotland Act 2003, and The Local Government Pension Scheme (Scotland) Regulations 2018 as amended are significant in the context of the funds;
- inquiring of the Chief Finance Officer as to other laws or regulations that may be expected to have a fundamental effect on the operations of the funds;
- inquiring of the Chief Finance Officer concerning the funds' policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among our audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which our procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the funds' controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skillfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

LOTHIAN PENSION FUND

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE CITY OF EDINBURGH COUNCIL AS ADMINISTERING AUTHORITY FOR LOTHIAN PENSION FUND AND SCOTTISH HOMES PENSION FUND AND THE ACCOUNTS COMMISSION

Reporting on other requirements - Other information

The Chief Finance Officer is responsible for the other information in the annual report. The other information comprises the Management Commentary, Annual Governance Statement, Governance Compliance Statement, Statement of Responsibilities and other reports included in the annual report other than the financial statements and our auditor's report thereon.

Our responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on the Management Commentary, Annual Governance Statement and Governance Compliance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on the Management Commentary, Annual Governance Statement and Governance Compliance Statement

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016): and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE CITY OF EDINBURGH COUNCIL AS ADMINISTERING AUTHORITY FOR LOTHIAN PENSION FUND AND SCOTTISH HOMES PENSION FUND AND THE ACCOUNTS COMMISSION

Matters on which we are required to report by exception

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual report, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in our Annual Audit Report.

Use of our report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Chris Brown,
for and on behalf of Azets Audit Services
Quay 2,
139 Fountainbridge,
Edinburgh
EH3 9QG

ANNUAL GOVERNANCE STATEMENT

Roles and responsibilities

The City of Edinburgh Council (the Council) has statutory responsibility for the administration of the Local Government Pension Scheme (LGPS) in the Lothian area of Scotland (Administering Authority). This responsibility is for two separate funds: the Lothian Pension Fund and Scottish Homes Pension Fund (the fund). Responsibility for the oversight and management of those funds is delegated to a governance structure in order to satisfy the requirements of relevant pensions and investment legislation and to ensure best practice.

Oversight bodies: The main functions of the Administering Authority are administration of scheme benefits and the investment of the assets of the fund. These functions are conducted in accordance with the Local Government Pension Scheme (Scotland) Regulations which are statutory instruments made under the Superannuation Act 1972. The fund's governance structure must also adhere to the Local Government Pension Scheme (Governance)(Scotland) Regulations 2015. The oversight of the funds is therefore carried out via:

- The Pensions Committee and the Pensions Audit Sub-Committee
- The Pension Board
- The Joint Investment Forum
- The LPF Group.

Corporate group: The Lothian Pension Fund group comprises the investment and pensions team employed by LPFE Limited (LPFE), and LPFI Limited (LPFI) which is the Group's regulated investment vehicle (together the LPF Group). Both companies are wholly owned by the Administering Authority.

Further details on the above arrangements can be found in the Governance section of the Management Commentary towards the front of this document.

Scope of responsibility

As the Administering Authority of the fund, the Council is responsible for ensuring that its business in administering the fund, is conducted in accordance with the law and appropriate standards, and that monies are safeguarded, properly accounted for, and used economically, efficiently and effectively. The Council also has a statutory duty under the Local Government in Scotland Act 2003, to make arrangements to secure best value, which for the fund is exercised in conjunction with its other separate statutory duties.

In discharging these overall responsibilities, elected members, senior officers and external representatives are responsible for implementing effective arrangements for governing the affairs of the LPF Group, and facilitating the effective exercise of its functions, including arrangements for the management of risk.

ANNUAL GOVERNANCE STATEMENT

The LPF Group has adopted a Local Code of Corporate Governance that's consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and Society of Local Authority Chief Executives (SOLACE) framework 'Delivering Good Governance in Local Government'.

This statement explains how the LPF Group has complied with the Local Code of Corporate Governance and how it meets the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

The governance framework

The LPF Group operates within the wider governance framework of the Council but within specific ringfenced governance structures focussed on the fund themselves. The governance framework comprises the systems, controls, processes, cultures and values by which the LPF Group directs and controls the fund. It also describes the way the LPF Group engages with and accounts to its stakeholders in relation to the management of the administration of the fund. It enables the LPF Group to monitor the achievement of its objectives and consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The LPF Group is also directly regulated by The Pensions Regulator, the Financial Conduct Authority (regarding its regulated investment activity in respect of LPFI), the Scottish Information Commissioner and is subject to other corporate and public sector rules and regulations.

The LPF Group has a few remaining services on which it relies from the Administering Authority. These include the Council's Democracy, Governance and Resilience, Procurement, Information Governance and Internal Audit functions, all of which form part of the LPF Group's overall assurance stack. However, the fund also seeks specialist external input to provide effective assurance around its financial services, investments, and pensions specific business.

The LPF Group also currently places reliance upon certain of the internal financial controls within the Administering Authority's financial systems and the monitoring in place to ensure the effectiveness of these controls.

Following the establishment of the wholly-owned subsidiary companies, LPFE and LPFI, the Administering Authority continues to have appropriate assurance processes and procedures around the administration of those companies and the wider LPF Group administering the fund.

ANNUAL GOVERNANCE STATEMENT

Review of Effectiveness

The Local Code of Governance details the Administering Authority's arrangements for monitoring each element of the framework and providing evidence of compliance.

The Chief Internal Auditor provides an annual assurance statement on the effectiveness of the system of internal control. Internal audit represents only one aspect of the LPF Group's oversight and assurance arrangements, which also includes work undertaken by LPF's Risk & Compliance team as well as other external assurance providers to support and complement existing internal activities. These assurance activities cover oversight of the Group's systems and controls, including FCA regulated compliance and other regulatory frameworks. In addition, the Chief Finance Officer of the LPF Group provides a statement of the effectiveness of the internal financial control system for the year ended 31 March 2024 for the fund.

These forms of monitoring and oversight continue to provide the Pensions Committee, Pension Board and corporate Board of Directors of LPFE and LPFI with good levels of assurance and broad coverage of the Group's activities. Where these activities have identified any weaknesses and enhancements, appropriate action plans have been agreed to make improvements where required.

ANNUAL GOVERNANCE STATEMENT

Certification

It’s our opinion, in light of the foregoing, that reasonable assurance can be placed upon the adequacy and effectiveness of the systems of governance that operate within the LPF Group in its administration of the fund. We consider the governance and internal control environment operating during the financial year from 1 April 2023 to 31 March 2024 to provide reasonable and objective assurance that any significant risks impacting on the LPF Group and its ability to achieve its objectives in properly administering the fund have and will continue to be identified and suitably proportionate actions have and will be taken to avoid or mitigate the impact of any such risks.

The LPF Group has identified certain key areas for improvement, summarised as follows:

- **Human resources:** to continue to implement the human resources strategy and Governance specific to LPF Group's requirements, supporting organisational design to support LPF Group’s evolving needs
- **Governance Appointments:** to ensure that vacancies in our governance bodies (such as the Pension Board, (non-elected members of) Pensions Committee, and our corporate Boards) as they arise are filled timeously and by suitable candidates and that stakeholder representatives receive appropriate training and support on an ongoing basis
- **Business continuity:** to continue to improve business continuity arrangements and ensure an appropriate plan is agreed, reviewed, managed, maintained and tested on an ongoing basis
- **Financial services regulatory compliance:** to continue to review, develop and enhance operational and governance activities of LPFI to ensure best practice compliance and assurance around its existing operations and take appropriate, pragmatic and proportionate action to address any gaps or weaknesses identified
- **Data strategy and framework:** to continue to progress development, implementation and identification of further improvements regarding LPF’s approach to managing and protecting data, including continuing to enhance and maintain cyber security within the organization, following achievement of Cyber Essentials and Cyber Essentials+ accreditation in April 2023. (Cyber Essentials is a UK Government backed scheme, overseen by the National Cyber Security Centre, designed to show that an organisation has a good level of protection in cyber security.)
- **Wider governance:** to continue to improve and evolve our governance operating model and framework, including our governance processes and practices, therefore continuing to embed strong corporate governance and maintain and reinforce separate governance and controls specific to the needs of the LPF Group, the pensions funds it administers and its distinct duties to employer and member stakeholders, consistently throughout the LPF Group's governance structures. To ensure that oversight from the Administering Authority is supported in a manner consistent with those duties.

The LPF Group will continue to ensure that these are treated as a priority and that progress towards implementation will be reviewed through the governance structures and processes established for the LPF Group and summarised herein.

ANNUAL GOVERNANCE STATEMENT

David Vallery
Chief Executive Officer
Lothian Pension Fund
25 September 2024

GOVERNANCE COMPLIANCE STATEMENT

The Regulations that govern the management of LGPS in Scotland require that a Governance Compliance Statement is published. This statement sets out the extent to which governance arrangements comply with best practice.

The statement below describes the arrangements as at 31 March 2024 and in place during the 2023/24 financial year.

Principle		Full Compliance	Comments
Structure	The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.	✔	The City of Edinburgh Council (Council) acts as Administering Authority and delegates all pension scheme matters to the Pensions Committee which as set out earlier is made up of: • Five Council elected members • Two external members, one drawn from the membership of the fund and one drawn from the employers that participate in the fund.
	That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	✔	As above, the Pensions Committee membership includes a representative of the participating employers and scheme members. Membership of the Pension Board also includes an equal number of non-administering employer and Trade Union member representatives. All members of the Pension Board are invited to attend Pensions Committee meetings. A secondary committee has been established - the Pensions Audit Sub-Committee (Sub-Committee). The Convener of that Sub-Committee is appointed from the membership of the Pensions Committee and (as at 31 March 2024) that role was held by one of the external non-elected members (the member representative). Two members of the Pension Board are also invited to attend the Sub-Committee in a non-voting capacity.

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Structure	That where a secondary committee or board has been established, the structure ensures effective communication across both levels.	✔	Processes and structures are in place to support communication. The Sub-Committee reports to the Pensions Committee after each of its meetings on their findings and recommendations. As noted, two members of the Pension Board are invited to attend the Sub-Committee and the Pension Board also attends the Pensions Committee meetings and takes part in training events. Reporting is also in place to the Pensions Committee from the JIF, LPFE and LPFI Boards, which each report to the Pensions Committee annually.
Representation	That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include employing authorities (including non-scheme employers, e.g. admitted bodies) and scheme members (including deferred and pensioner scheme members).	✔	Commentary set out in relation to the principles above equally applies here. Specifically, the composition of the Pensions Committee and Pension Board ensures key stakeholders are given the opportunity to be represented at the Pensions Committee and Sub-Committee. The structures in place requiring attendance of key stakeholders at Pensions Committee and Sub-Committee meetings also affords an opportunity for representation.
	Where appropriate, independent professional observers, and expert advisers (on an ad-hoc basis).	✔	An Independent Professional Observer was appointed in September 2023 and provides written observations to the Pensions Committee and Pension Board members in advance of each meeting. The IPO attends Pensions Committee, Sub-Committee, and Pension Board meetings. External investment advisers also sit on the JIF. Two independent Non-Executive Directors are appointed to the Board of Directors of LPFI and LPFE (both with a term expiry of March 2025) which supports independent judgment and character in decision-making. Several specialist advisors provide services to LPF and where required may, from time to time, be invited to attend meetings to present reports or support discussions. As an example, LPF's External Auditor. Internal Audit reports to the Sub-Committee quarterly. Another example of an advisor in place is an external compliance consultancy which provides support in relating to Financial Conduct Authority compliance.

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
	That where lay members sit on a main or secondary committee, they're treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	✔	The Pensions Committee (and the Sub-Committee as at 31 March 2024) membership comprises external non-elected members. Non-elected members of those bodies are treated no differently from Elected members – they're voting members with the full powers, duties and responsibilities as any other member. In addition, as noted previously, Pension Board members attend the Pensions Committee meetings and receive equal access to the papers for those meetings. While the Pension Board members don't have voting rights at the Pensions Committee, the Pension Board is given a full opportunity to contribute, and its views taken into account during the decision-making process. The Pension Board takes part in all Committee training events.
Selection and Role of Lay Members	That Committee or Board members are made fully aware of the status, role and function that they're required to perform on either a main or secondary Committee.	✔	The delegated functions of the Pensions Committee are set out in its Terms of Reference. Training is made available and an induction programme is in place. Further details on training are provided below. The Elected members of the Pensions Committee are required to read, sign and abide by the Councillors' Code of Conduct. The LPF Code of Conduct, approved in December 2019 (and specifically updated and tailored for the Pension Committee and Pension Board) must be read and signed by elected and non-elected members prior to their appointment.

LOTHIAN PENSION FUND

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Selection and Role of Lay Members	That at the start of any meeting, Committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	✔	The Code of Conduct is applicable to all members of the Pensions Committee and Pension Board and includes requirements related to conflicts of interest. On an ongoing basis, members are required to notify any actual or potential conflicts of interest. Each of the Pensions Committee, Sub-Committee, Pension Board and LPFI and LPFE Board meetings begin with a declaration of interests.
Voting	The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS Committees.	✔	All Pensions Committee members are entitled to vote. LPFI and LPFE Board meetings are carried out in accordance with their respective Articles of Association and other constitutional documents.
Training/Facility Time/Expenses	That in relation to the way in which statutory and related decisions are taken by the administering authority, there's a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process. That where such a policy exists, it applies equally to all members of Committees, Sub-Committees, advisory panels or any other form of secondary forum. That the administering authority considers the adoption of annual training plans for Committee and Board members and maintains a log of all such training.	✔	A Training and Attendance Policy is in place covering training requirements (a minimum of 21 hours per year) and reimbursement of expenses. The policy is available on our website www.lpf.org.uk. It applies equally to all Pensions Committee and Pension Board members. The Pensions Committee and Pension Board members have regular training sessions run by LPF, and others, for the purposes of their knowledge and understanding of key matters, such as related to investment strategy and pension operations and (where appropriate) Financial Conduct Authority compliance. Attendance at meetings and training is monitored and reported.

LOTHIAN PENSION FUND

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Meetings frequency	a) That an administering authority's main Committee or Committees meet at least quarterly.	✔	The Pensions Committee meets at least quarterly.
	b) That an administering authority's secondary Committee or panel meet at least twice a year and is synchronised with the dates when the main Committees sits.	✔	The Sub-Committee meets at least three times a year at an annual cadence to coincide with the Pensions Committee. Further meetings are held if necessary. The Pension Board meets separately in advance of each Pensions Committee meeting, in addition to attendance at the Pensions Committee meetings themselves. The JI Forum meets quarterly or more frequently as required. The LPFE and LPFI Boards also meet quarterly and more frequently as required.
	c) That an administering authority who doesn't include lay members in their formal governance arrangements must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Not applicable	
Access	That subject to any rules in the council's constitution, all members of main and secondary Committees or Boards have equal access to committee papers, documents and advice that falls to be considered at meetings of the main Committee.	✔	Except for any matters considered under a private agenda, as permitted by legislation, Pensions Committee papers and minutes are publicly available on the Council's website (a link to which is made available via the LPF website). All Pensions Committee papers are circulated in advance to all members of the Pensions Committee and Pension Board members, including the IPO. Members of the Pensions Committee and Pension Board have equal access to the IPO.

LOTHIAN PENSION FUND

GOVERNANCE COMPLIANCE STATEMENT

Principle		Full Compliance	Comments
Scope	That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	✔	The Pensions Committee receives and votes on, as required, matters relating to both the administration and investment of the fund. LPF provides regular updates for Pensions Committee members.
Publicity	That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	✔	Details related to the governance arrangements are publicly available on LPF's website, including the Pensions Committee Terms of Reference. The LPF Group also communicates regularly with employers and scheme members through various channels, including in respect of any vacancies which may arise to join the Pensions Board or apply as an external member of the Pensions Committee.

David Vallery
Chief Executive Officer
Lothian Pension Fund
25 September 2024

REMUNERATION REPORT

Remuneration policy for employees

Our officers and employees of Lothian Pension Fund are employed by LPFE, an arms-length organisation owned by the City of Edinburgh Council, the administering authority for Lothian Pension Fund. LPFE has been incorporated as a standalone entity to allow us to compete with private sector investment management firms for recruitment and retention of skilled and experienced investment managers and analysts.

Managing the majority of the assets of the fund internally allows us to achieve significantly lower costs, and therefore improved net returns or lower investment risk than would be possible by appointing private sector asset managers to invest the fund's assets. The LPFE Board acts as a Remuneration Committee for officers and employees determining pay arrangements based on comparison to well-researched market benchmarks and performance against pre-agreed performance targets, and always linked to the principle of delivering value-for-money for the members of the fund and their sponsoring employers.

Each year LPF participates in a range of benchmarking exercises to measure operating costs and net investment returns against peers and indices relevant to us. Pay arrangements in LPFE are underpinned by comprehensive market benchmarking with an external provider and reflect the market for investment expertise where this is a requirement for the role. By using benchmarks on costs and net investment returns, we're able to provide assurance to our oversight bodies that such pay arrangements represent value-for- money for employee members and their sponsoring employers who bear the costs of operating the pension fund and securing retirement benefits.

We have three variable pay schemes at LPF; two of which have vesting periods. The Portfolio Manager and Senior Management schemes entitle colleagues to receive an assessed percentage of their salary as an additional variable pay award if they meet certain objectives during the year. The assessment year runs from 1 January to 31 December each year. The award then vests over three years.

The first part is payable at the end of the first year if the objectives are met and the remaining two parts are payable in the following two years if the requirement that the employee is still employed by the company at such time is met.

The accounting treatment for variable pay as outlined in "International Accounting Standard (IAS) 19, Employee Benefits" states that employee service before the vesting date gives rise to an obligation to make payment, because, at the end of each successive reporting period, the amount of future service that an employee will have to deliver before becoming entitled to the benefit is reduced.

In accordance with IAS 19, therefore, a liability has been recognised as at 31 March 2024 for the two months of service which the employees have delivered with regards to the remaining vested payments in the scheme.

REMUNERATION REPORT

This obligation of LPF to make payments as a result of colleague service delivered up to 31 March 2024 is reflected in the figures presented below.

NUMBER OF EMPLOYEES BY PAY BAND

The numbers of employees whose remuneration during the year exceeded £50,000 were as follows:

Remuneration Bands	2022/23	2023/24	Remuneration Bands	2022/23	2023/24
£50,000 - £54,999	3	-	£170,000 - £174,999	-	-
£55,000 - £59,999	4	1	£175,000 - £179,000	-	3
£60,000 - £64,999	1	2	£180,000 - £184,999	-	2
£65,000 - £69,999	4	4	£185,000 - £189,999	-	-
£70,000 - £74,999	-	2	£190,000 - £194,999	-	-
£75,000 - £79,999	1	1	£195,000 - £199,999	-	-
£80,000 - £84,999	2	3	£200,000 - £204,999	-	-
£85,000 - £89,999	-	1	£205,000 - £209,999	-	-
£90,000 - £94,999	1	-	£210,000 - £214,999	1	-
£95,000 - £99,999	-	1	£215,000 - £219,999	-	-
£100,000 - £104,999	1	-	£220,000 - £224,999	-	-
£105,000 - £109,999	1	1	£225,000 - £229,999	1	-
£110,000 - £114,999	-	2	£230,000 - £234,999	-	-
£115,000 - £119,999	1	-	£235,000 - £239,999	-	-
£120,000 - £124,999	-	-	£240,000 - £244,999	-	-
£125,000 - £129,999	-	-	£245,000 - £249,999	-	-
£130,000 - £134,999	-	-	£250,000 - £254,999	-	1
£135,000 - £139,999	-	1	£255,000 - £259,999	-	-
£140,000 - £144,999	-	-	£260,000 - £264,999	-	-
£145,000 - £149,999	-	1	£265,000 - £269,999	-	-
£150,000 - £154,999	2	3	£270,000 - £274,999	-	-
£155,000 - £159,999	2	1	£275,000 - £279,999	-	-
£160,000 - £164,999	1	-	£280,000 - £284,999	-	1
£165,000 - £169,999	3	1			
			Total No. of Employees	**29**	**32**

LOTHIAN PENSION FUND

REMUNERATION REPORT

EMPLOYEES REMUNERATION

The remuneration paid to LPF's senior employees is as follows:

	Total Remuneration 2022/23	Salary, Fees and Allowances	Variable Remuneration	Total Remuneration 2023/24
Name and Post Title	**£000**	**£000**	**£000**	**£000**
David Vallery, Chief Executive Officer	228	198	84	282
Bruce Miller, Chief Investment Officer (to January 2024)	214	155	91	246
Emmanuel Bocquet, Chief Investment Officer (from November 2023)	-	78	6	84
John Burns, Chief Finance Officer (to May 2023)	162	98	34	132
Alan Sievewright, Chief Finance Officer (from June 2023)	-	140	7	147
Kerry Thirkell, Chief Risk Officer	104	141	42	183
Karlynn Sokoluk, Chief Operating Officer	115	121	33	154
Helen Honeyman, Chief People Officer	158	127	54	181
Total	**1,038**	**1,058**	**351**	**1,409**

The senior colleagues detailed above have responsibility for management of the LPF Group to the extent that they have power to direct or control the major activities of the Group (including activities involving the expenditure of money), during the year to which the Remuneration Report relates, whether solely or collectively with other persons.

REMUNERATION REPORT

The variable remuneration shown above includes the Company variable remuneration for 2023/24 along with the Senior Management variable remuneration for 2023/24 and vested payment for the previous two assessment years. This is split as follows:

	Company Variable Remuneration 2023/24	Senior Management Variable Remuneration			Total Variable Remuneration 2023/24
		2022 Payment 3	2023 Payment 2	2024 Payment 1	
Name and Post Title	£000	£000	£000	£000	£000
David Vallery, Chief Executive Officer	16	8	20	40	84
Bruce Miller, Chief Investment Officer (to January 2024)	-	16	33	42	91
Emmanuel Bocquet, Chief Investment Officer (from November 2023)	2	-	-	4	6
John Burns, Chief Finance Officer (to May 2023)	-	-	12	22	34
Alan Sievewright, Chief Finance Officer (from June 2023)	7	-	-	-	7
Kerry Thirkell, Chief Risk Officer	14	-	8	20	42
Karlynn Sokoluk, Chief Operating Officer	12	-	1	20	33
Helen Honeyman, Chief People Officer	13	11	14	16	54
Total	**64**	**35**	**88**	**164**	**351**

The remuneration paid to our employees whose remuneration during the year exceeded £150,000 is as follows:

	Total Remuneration 2022/23	Salary, Fees and Allowances	Variable Remuneration	Total Remuneration 2023/24
Name and Post Title	£000	£000	£000	£000
Andrew Imrie, Portfolio Manager	167	120	57	177
Stewart Piotrowicz, Portfolio Manager	166	120	57	177
Ian Wagstaff, Portfolio Manager	167	120	57	177
Albert Chen, Portfolio Manager	153	105	49	154
Ross Crawford, Portfolio Manager	151	107	49	156
Nicola Barrett, Portfolio Manager	158	112	54	166
Gillian De Candole, Portfolio Manager	135	105	48	153
Total	**962**	**789**	**371**	**1,160**

REMUNERATION REPORT

The variable remuneration shown on the previous page includes the Company variable remuneration for 2023/24 along with the Portfolio Manager variable remuneration for 2023/24 and vested payment for the previous two assessment years. This is split as follows:

	Company Variable Remuneration 2023/24	Portfolio Manager Variable Remuneration			Total Variable Remuneration 2023/24
		2022 Payment 3	2023 Payment 2	2024 Payment 1	
Name and Post Title	£000	£000	£000	£000	£000
Andrew Imrie, Portfolio Manager	12	15	14	16	57
Stewart Piotrowicz, Portfolio Manager	12	15	15	15	57
Ian Wagstaff, Portfolio Manager	12	15	14	16	57
Albert Chen, Portfolio Manager	9	13	13	14	49
Ross Crawford, Portfolio Manager	9	13	13	14	49
Nicola Barrett, Portfolio Manager	11	14	14	15	54
Gillian De Candole, Portfolio Manager	10	12	13	13	48
Total	**75**	**97**	**96**	**103**	**371**

Senior officers of the City of Edinburgh Council are also fully remunerated via the Council and no additional remuneration is paid by LPF. This remuneration is disclosed in the Financial Statements of the City of Edinburgh Council.

The total amount of variable remuneration payable over the next two years if all of the colleagues involved in the arrangements at 31 January 2024 remain in the company's employment is as follows:

	Payable March 2025		Payable March 2026
	2022 Payment 3	2023 Payment 2	2023 Payment 3
	£000	£000	£000
Senior Employee Variable Remuneration	40	41	-
Portfolio Manager Variable Remuneration	112	137	137
Employer National Insurance Contribution	21	25	19
Total	**173**	**203**	**156**

The amounts payable for senior employee variable remuneration over the next two years exclude amounts previously calculated for colleagues who have subsequently left their posts.

LOTHIAN PENSION FUND

REMUNERATION REPORT

Colleague pension entitlement

Pension benefits for colleagues are provided through the Local Government Pension Scheme.

The Local Government Pension Scheme became a career average pay scheme for colleagues on 1 April 2015. Benefits built up to 31 March 2015 are protected and based on final salary. Accrued benefits from 1 April 2015 will be based on career average salary.

The Scheme's normal retirement age for colleagues is linked to the State Pension Age (with a minimum of age 65).

From 1 April 2009, a five-tier contribution system was introduced with contributions from Scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009, contributions rates were set at 6% for all non-manual colleagues.

The tiers and members' contribution rates for 2023/24 were as follows:

Pensionable Pay (2023/24)	Rate (%)
On earnings up to and including £25,300 (2022/2023 £23,000)	5.5%
On earnings above £25,301 and up to £31,000 (2022/2023 £23,001 to £28,100)	7.25%
On earnings above £31,001 and up to £42,000 (2022/2023 £28,101 to £38,600)	8.5%
On earnings above £42,501 and up to £56,600 (2022/2023 £38,601 to £51,400	9.5%
On earnings of £56,601 and above (2022/2023 £51,401)	12.0%

If a person works part-time, their contribution rate is worked out on the whole-time pay rate for the job, with actual contributions paid on actual pay earned.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004.

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a pension on retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation.

The pension figures shown relate to the benefits that the person has accrued as a consequence of their total local government service, and not just their current appointment.

REMUNERATION REPORT

The pension entitlement of the LPF Group's senior employees is as follows:

	In-year Pension Contributions			Accrued Pension Benefits	
	2022/23	2023/24		As at 31 March 2024	Increase from 31 March 2023
Name and Post Title	£000	£000		£000	£000
David Vallery, Chief Executive Officer	14	35	Pension	-	-
			Lump Sum	-	-
Bruce Miller, Chief Investment Officer (to January 2024)	4	-	Pension	41	3
			Lump Sum	36	3
Emmanuel Bocquet, Chief Investment Officer (from November 2023)	-	-	Pension	-	-
			Lump Sum	-	-
John Burns, Chief Finance Officer (to May 2023)*	15	-	Pension	-	(58)
			Lump Sum	-	(99)
Alan Sievewright, Chief Finance Officer (from June 2023)	-	-	Pension	-	-
			Lump Sum	-	-
Kerry Thirkell, Chief Risk Officer	16	28	Pension	-	-
			Lump Sum	-	-
Karlynn Sokoluk, Chief Operating Officer	21	24	Pension	-	-
			Lump Sum	-	-
Helen Honeyman, Chief People Officer	22	25	Pension	10	3
			Lump Sum	-	-
Total	**92**	**112**		**87**	**(148)**

** John Burns is in receipt of pension benefits from 1 June 2023*

REMUNERATION REPORT

The pension entitlement of the LPF Group's colleagues whose remuneration during the year exceeded £150,000 is as follows:

	In-year Pension Contributions			Accrued Pension Benefits	
	2022/23	2023/24		As at 31 March 2024	Increase from 31 March 2023
Name and Post Title	£000	£000		£000	£000
Andrew Imrie, Portfolio Manager	23	24	Pension	41	5
			Lump Sum	18	1
Stewart Piotrowicz, Portfolio Manager	23	24	Pension	34	5
			Lump Sum	-	-
Ian Wagstaff, Portfolio Manager	23	24	Pension	32	5
			Lump Sum	-	-
Albert Chen, Portfolio Manager	21	21	Pension	16	4
			Lump Sum	-	-
Ross Crawford, Portfolio Manager	21	21	Pension	14	3
			Lump Sum	-	-
Nicola Barrett, Portfolio Manager	22	23	Pension	13	3
			Lump Sum	-	-
Gillian De Candole, Portfolio Manager	19	21	Pension	16	4
			Lump Sum	-	-
Total	**152**	**158**		**184**	**30**

Exit packages

Exit packages include compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex-gratia payments and other departure costs. There was no payment of any exit packages in 2023/24 or in the previous year.

Remuneration for councillors on the Pensions Committee

Councillors on the Pensions Committee are remunerated by the City of Edinburgh Council; no additional remuneration is paid by the fund.

ADDITIONAL INFORMATION

Key documents online

You can find further information on what we do and how we do it, on our website at www.lpf.org.uk. To view individual policy documents, click on the links below if viewing online or visit www.lpf.org.uk/publications.

- Actuarial Valuation reports
- Pension Board constitution
- Annual Report and Accounts
- Statement of Investment Principles
- Statement of Responsible Investment Principles
- Communications Strategy
- Funding Strategy Statement
- Strategy and Business Plan 2022/23
- Training and Attendance policy

Fund advisers

Actuaries:	Hymans Robertson LLP, Exchange Place 1, Semple Street, Edinburgh, EH3 8BL
Auditors	Azets, Exchange Place 3, Semple Street, Edinburgh, EH3 8BL
Bankers:	Royal Bank of Scotland, 36 St Andrew Square, Edinburgh, EH2 2YB
Strategic advisers:	Kirstie MacGillvray and Stan Pearson
Investment custodians:	The Northern Trust Company, 50 Bank Street, Canary Wharf, London, E14 5NT
Investment managers:	Details can be found in the notes to the accounts.
Additional Voluntary Contributions (AVC) managers:	Standard Life, Standard Life House, 30 Lothian Road, Edinburgh, EH1 2DH M&G Corporate Services Limited, 10 Fenchurch Avenue, London EC3M 5AG.
Property valuations:	CBRE Ltd Valuation & Advisory Services, Henrietta House, 8 Henrietta Place, London W1G 0NB
Property Management and Property Fund Accounting:	Jones Lang LaSalle Limited: 30 Warwick Street, London, W1B 5NH
Property Legal:	CMS Cameron McKenna Nabarro Olswang LLP, Saltire Court, 20 Castle Terrace, Edinburgh EH1 2EN Addleshaw Goddard LLP, One St Peter's Square, Manchester, M2 3DE
Solicitors:	Lothian Pension Fund In-house

ADDITIONAL INFORMATION

Comments and suggestions

We appreciate your comments and suggestions on this report. Please let us know which sections you found useful and if you have any suggestions for items to be included in the future. Please email your comments to pensions@lpf.org.uk.

HAPPY TO TRANSLATE

Accessibility

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Contact details

If you would like further information about Lothian Pension Fund and Scottish Home Pension Fund, please contact us using the details on the back page of this report.

LOTHIAN
PENSION FUND

PO Box 24158, Edinburgh, EH3 1GY

Phone: 0333 996 1900
Email: pensions@lpf.org.uk
Web: www.lpf.org.uk